THE MECHANISM OF THE CITY

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THE MECHANISM OF THE CITY

AN ANALYTICAL SURVEY OF THE BUSINESS ACTIVITIES OF THE CITY OF LONDON

BY

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BY THE SAME AUTHOR.

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FOREWORD

The present volume constitutes an expanded version of a course of lectures which I gave at the London School of Economics and Political Science (University of London) early in 1910. Chapter VI. formed no part of this course. The lectures were intended to offer a survey of City business activities in the concrete, so as to assist and supplement the study of economic principles in the abstract by exhibiting and analysing their operation in the field, of all fields, where their influence is most constantly observed, and where they are themselves most efficiently and incisively applied. Such a survey can only be in the nature of a wide generalisation, unless it is to become unwieldy, and is in that way to lose half its value by the sacrifice of rapid comprehensiveness to microscopic detail. For that reason the present volume must not be regarded as having the slightest pretensions to be a treatise on banking or on the Stock Exchange. What it does claim to do is to exhibit in an intelligible and yet scientifically accurate way the essential basis of the activities of the City, so that the student may understand why they exist, what purpose they serve, and how they serve it. If he desire to subject their operation to minute critical observation, there exist numerous treatises which will afford the means, and he will be the better equipped for the study of the component parts of the great machine if

he has intelligently observed what I have attempted to show him, namely, a bird's-eye view of the whole.

I am not aware that, down to the present time, any attempt has been made to deal with the subject in this way. If my attempt should be successful, the reader ought, when he has carefully digested the facts of the survey, to be able to select, at random, any part of the movement of the vast City mechanism, and to characterise, with complete accuracy, the function which it discharges and the economic purpose which it subserves. He ought to be able to refer any of the myriad activities to the few basic principles (such as "credit" and "transfer") which, after all the embarrassing undergrowth has been cut away, remain as the central and predominant control of the whole gigantic process. Ruthless analysis, and a determination to exhibit modern financial methods as merely an adaptation of the most ordinary modes of "chaffering," will perhaps be recognised as the outstanding characteristics of the essay. I am quite content that it should be so.

The use of City colloquialisms (they are sometimes called "slang") is deliberate, although of course I have made no attempt to force them in. But wherever the City term is the more vivid and picturesque, I have not scrupled to employ it in preference to any circumlocution in ordinary English. He who would study and comprehend the peculiar genius of such a unique aggregate of energy and activity as the City of London presents, he who would see the financial phenomena from the City point of view, must learn the City language. As well might he study the nuances of Horatian Latin through the thick veil

of an English translation as hope to know how the City thinks and acts without the ability to comprehend what it says and writes.

In passing the proofs of this essay I have had the advantage of the kindly criticism of my old friend and colleague, Mr. D. O. Croal; but he is in no way responsible for the opinions which are expressed.

That such a survey as I offer is imperfect and inadequate I know only too well. My excuse is, on the one hand, that it is the product of the scanty leisure of a busy career; and, on the other, that, imperfect as it is, it collates the daily experience and observation of more than twenty years of City life.

Ellis T. Powell.

Rosedene,
Brondesbury Park, N.W.

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THE MECHANISM OF THE CITY

CHAPTER I.

THE MOTIVE FORCES—THE GREAT BANKS, TRUST COMPANIES, AND FINANCE HOUSES.

From the hour of 6 A.M. until nearly noon a constant stream of humanity, numbering thousands and tens of thousands in its aggregate of individuals, pours into the small area, the "one square mile," which we call the City of London. At about 4 P.M. the reverse current begins, and continues until the early hours of next morning. The phenomenon may be seen on every business day from year's end to year's end. At certain points where the mass of humanity is more than usually congested—for example, at Liverpool Street Station between 8.30 A.M. and 10 A.M. or on London Bridge about 6 A.M.—the spectacle is really startling, alike in the magnitude of the aggregate, and in the hurried, serious, pre-occupied aspect of the human units who compose it. No thoughtful observer, whether of this or of another world, could possibly look upon it without asking himself the question, "Who are all these people, and

what is the purpose of their daily anxious oscillation between their suburban sleeping places and this teeming arena of their diurnal activity?"

The reply would be that these are the living factors of a giant mechanism, one of the greatest, if not itself in fact the greatest, of the world-forces. Each individual unit—be he the Governor of the Bank of England or only the junior typist—is hurrying to take his or her place in the fabric of the immense machine before its wheels are set in motion for the day. For nearly 250 years the machine has been performing the same kind of task, though with an ever-increasing scope and potency adapted to the unceasingly augmented magnitude of the work to be done. So important is that work to the well-being not only of London or of Great Britain, but of the world, that it is not too much to say that its breakdown must precipitate something like social chaos upon one-half of the human race. Such an assertion may compel us to formulate another question. We may ask not only who and what are the people who make the factors of the great machine, but what is the purpose, what the result, of its existence and activity. It is the aim of the present treatise to offer an answer to these questions.

The City as Financial Centre.

The truth is that a long process of concentration has made the City of London the seat of the central motive power which drives no small portion of the commercial mechanism of Great Britain itself, of the Colonies and India, and of a very considerable proportion of the

non-British eastern hemisphere, as well as of the Latin-American republics of the west. The City has initiated and directed the centralising of the financial resources by means of which an unexampled multitude of public and private enterprises have been established. It maintains, day by day and hour by hour, an unintermitted control and observation, so that the latest developments in the working of British-owned coal mines in China, or the most recent traffics of British-owned railways in Peru, are the subject of City comment and the inspiration of market movement within almost a few moments of their being placed on record. The result is to make the City and its activities and phenomena into a financial barometer of the most susceptible type, wherein the financial meteorology of the whole world may be observed. The expression "the City" has in this manner almost become synonymous with "business." Upon the "City column" are daily turned the eyes of business men, who live hundreds of miles from the arena of the City activities which it records, in search of guidance, data, suggestion, and inference. To examine the present aspect of this vast and complicated mechanism, and to supply in that way an introduction to the close analysis and observation of its innumerable activities, is to bring the mainsprings of contemporary prosperity within the reach of critical and profitable scrutiny.

Only by means of such incisive analysis of the actually moving mechanism can we clothe the dry bones of economic theory with the flesh of living reality, so that theory and practice come together, as bone came to his bone before the prophetic vision of

Ezekiel, and the vigorous economic entities stand upon their feet, an exceeding great army, before the eyes of the observer. "Vigorous" in every sense they are. The life of the City generates in those who live it an intellectual alertness, a rapidity of apprehension, an up-to-dateness which is quite a unique psychological phenomenon. The man of provincial birth and training who returns to the scenes of earlier days after a course of City experience, finds his old friends unaccountably sluggish in mind and method when he mentally compares them to himself and his City colleagues and contemporaries. The fact is forced upon him. It is not the consequence of conceit or egoism. Clearly we are right in describing as "vigorous" the economic entities which live and move in this arena of rapid initiative, energetic elaboration, effective attainment. Clearly the working of the financial mechanism of the world will be seen here in its highest perfection, in its closest concentration, and therefore may be studied to the best advantage.

The selection of a point for the commencement of the analysis is by no means an easy task. Wherever we begin, we do so, in the late Professor Maitland's graphic words (used with reference to the same difficulty in the selection of a starting-point for the history of English Law) at the cost of making a rent in a seamless robe. But inasmuch as money is the motive power of the mechanism, we may perhaps best begin at the point where the money has been aggregated in vast masses, ready, so to speak, to be thrust as fuel into the machine. That is to say, we may commence with the banks, including in our

survey the great finance houses and the more powerful financial trusts, since all alike are storehouses of the motive power.

The British "Trusts."

The reader must beware of this word "trust." It is employed in modern financial parlance to describe two quite distinct classes of financial business. In the sense in which it is used here, it signifies a company whose directors have been placed in command of a large capital in order that they may employ it, not in the origination of business enterprise on their own and their shareholders' account, but by means of participation in the enterprise of others, in such a manner as to average and to minimise the risk. This may be done by a wide differentiation in the classes of securities which the trust purchases, holds, or deals with; or it may be effected by what has come to be known as the extended geographical distribution of the risks, so that only a few of them are at any one time exposed to the influence of the same political, financial, meteorological or seismological disturbance. In their attitude towards wholly new enterprises the practice of the great financial trusts exhibits considerable variation. Some will underwrite new issues of approved type, and others are prepared to subscribe for and to take up large "lines" of shares which are considered to offer promise of a satisfactory yield or of an appreciation in capital value. Some of the trusts, in fact, venture into business which borders upon the purely speculative. It is well known that at the time of a comparatively

recent great advance in American railroad securities, some of the trusts were found to have enormous holdings, which they sold, in many instances, almost at the top of the advance, with immense benefit to themselves. But whatever the policy of their directorates, be it conservative, cautious, bold, or speculative, the leading and guiding principle of all the great financial trusts is the same, that is to say, the invocation of the principle of the average, by means of a wide distribution and variation of the risks. This is the English meaning of the word "trust." In order to render the method of these great companies perfectly clear I have set out, in Appendix A of this chapter, some of the holdings of a typical trust.

The expression, as employed in the American sense, signifies quite another class of business, namely, the attempt to monopolise some commodity, such as oil, or some form of social convenience and necessity, such as transport, for the purpose of enhancing the profits, and in other ways of furthering the interests of those who engineer and control the operation. It is essential that we clearly distinguish these two senses borne by the word "trust" in City parlance, since in its English sense the term has no such sinister connotation as its American significance involves.

The selection of the banks and finance houses for the starting-point of our analysis has, therefore, been deliberately made. It is in their hands that the real driving-power — money — is collected in sufficient quantity to be effective for the work of keeping the great machine in motion. The money, of course, has its origin elsewhere. Whether it is in the form of

gold or credit, it is brought into availability as the result of individual and corporate effort which from one point of view precedes, while from another point of view it follows, the advent of the banks and finance houses into the arena. Unless they were constantly financing further effort, the springs of City activity must soon run dry. But they could not finance it unless the results of the earlier activity were themselves available for the purpose. Each process is the complement of its fellow, and we must make a selection of one or the other for the commencement of our analysis. As the banks and finance houses offer a condition of concentration and centralisation ; as they present, to the scrutiny of the investigator, a smaller area than that which is occupied by the teeming multitudes who work for them, and through them ; and as the popularisation of a bank account has caused them to loom large in the public eye and mind, their selection as the starting-point may perhaps be accepted as justifiable.

The Purpose of the Mechanism.

The whole of the gigantic mechanism, with all its countless simultaneous, though subordinate, processes, works for two purposes, and two only. These are (1) the provision of commodities, and (2) the provision of investments. As the investments are themselves commodities, this duplex classification may possibly be open to objection. But the investments are themselves so large and so important a class, produced by a specialised and characteristic portion of the mechanism, that their separation from

the other commodities is a real necessity. If we retain the two classes, therefore, we shall find that there is not any part of the business of the City which cannot be referred to one or other of these. Each purpose requires, for its realisation, the co-operation and co-ordination of innumerable forces; or, to put it in another way, each process can be split up into almost countless contributory activities. To place the loaf made from Argentine wheat on a suburban breakfast table has required, within the last twenty years (if we carry the scrutiny of causation no further), the financing of the British-owned Argentine railways which opened up the land, the provision, in one way or another, of capital for the agriculturist, and the creation of a land and ocean transport system which should bring the grain from pampas to bakehouse. These main divisions of the process of producing the loaf of bread might again be separated into countless others. The building of the ship which carries the wheat necessitates the intelligent co-operation of a multitude, whose acts are but episodes in a sequence of causation that goes back beyond history. But let us, as we originally determined, begin with the bank, the storehouse of credit, the principal among the motive forces which drive the vast engine in ceaseless revolution.

The Process of Production.

The production of commodities (including stocks and shares, which we shall consider separately) is not conducted on the principle of encashing the profit of one transaction before the next is entered upon.

A great financial house does not wait to encash the whole of the profits of one transaction before initiating another. The exigencies of business, and the needs of the borrowers, compel it to proceed with the issue of a new foreign loan, while as yet a portion of another remains "undigested" in the strong room. Even the humblest baker, endowed with the most exiguous capital, does not collect all the money arising from his day's delivery of loaves, and calculate his profit, before he prepares the next day's baking. But he must pay his men at short intervals, and he, and his family, and his horse, must have food day by day. So that, although he may hope to collect, within a few days of their creation, his debts for bread supplied, he must have the means of going on with his business and of meeting his domestic expenses meanwhile. He must be able to finance himself; and the fund from which he does it is called his *capital*. If he has no capital, the baker cannot even commence business, for he will not have the means to procure the flour for his first day's production, nor the means to support his bodily necessities and to keep the oven hot while he is making the loaves.

Let us consider this, the basic principle, in somewhat minuter detail. Let us, for its more complete elucidation, imagine our baker commencing business with a very small capital. He has rented a bakehouse, shop and plant, and his capital consists of a small amount of money at the local bank. The pressure of competition forces him to supply bread to certain customers who do not pay immediately. The result is that at the end of a week or a fortnight the baker finds

that his money at the bank has almost all been drawn, and his stock of flour is getting ominously small. If he could instantly collect all the money that is owing to him, he would be in a better position than when he started, notwithstanding his business and domestic expenses. In other words, he is working at a profit, and, in theory, his balance-sheet is all right. But unless he can obtain more capital, he cannot go on. Under these circumstances he may endeavour to obtain a further supply of flour on an undertaking to pay at a future date. That is to say, the baker will obtain, indirectly, the use of a portion of the capital which the wholesale flour merchant is employing in his own business. He will not obtain it for nothing. His flour, obtained on those terms, will cost more than it would have done had he been in a position to pay cash.

The "Credit-shop."

But the flour merchant, like the baker, has current and peremptory expenses, as well as outstanding debts owing to him, which he cannot immediately collect. Doubtless there will come a time in his financial history, as in that of the baker, when he has so much money outstanding that his bank account is seriously depleted, while there is no prospect of his improving its appearance by the immediate receipt of any of the money due to him. Yet the flour which he has sold is all in process of realisation, through safe channels, and the whole of the proceeds will ultimately find their way into his bank account. What, then, is he to do meanwhile? He

must finance his future activity, while the harvest of his past trading is in process of being garnered. Since his own stock of credit is exhausted, he must go where he can obtain a further supply. This he will do by going to an institution which has credit for sale, which keeps a large stock of credit in hand, and loans it out to those who can exhibit a legitimate claim to the use of it at the current market price. I use the word "credit" advisedly, in preference to "money," for reasons which I shall shortly make clear.

The institution visited by our credit-seeker will doubtless be his bank. Inasmuch as the flour merchant's cheques and cash will have been passing into the bank for some time, while his payments outwards will have been made by cheques drawn on the account into which his cheques and cash have gone, the banker will have a good idea of his customer's position. He will know whether, for instance, the turnover is large or small, and with what class of trader the transactions are carried on. The application made to him will be, doubtless, either to discount a bill which has been handed to the flour merchant by one of his own customers, or to discount the flour merchant's own paper. In either case the banker may have assurance (from his own knowledge of the customer's account, or from the nature of the document offered to him) that the bill has relation to the proceeds of actual business liabilities, the liquidation of which will automatically "meet" the bill. In other words, it will, as bankers say, "pay itself": unlike an accommodation bill, which rests merely on the promises of the parties, and on no real

basis of completed business. Let us assume, then, that the banker agrees to discount the bill, and to place the proceeds to the credit (mark the word) of our flour merchant's account. Quite possibly he may ask for collateral security. That is to say, he will request his customer to deposit with him the deeds of his warehouse, or his life insurance policy, or some shares. This security will be collateral with the bill, and the two together will justify the banker in placing the agreed amount of credit at the disposal of the customer, which he will do by a mere book entry, and by nothing more.

The Meaning of "Credit."

We are now in a position, at the crux of the argument, to ask ourselves what this transaction really amounts to. Let us see. The banker will make an entry in his books to the effect that £500 of credit is added to the amount on the side of the customer's account. The customer will draw on the credit by means of cheques, to pay off his outstanding liabilities, and in that way, probably, to establish and maintain the confidence which will secure the acceptance and fulfilment of the orders for the further goods which he needs for his business. These cheques will forthwith appear to the credit of the accounts, kept with other banks, of the persons to whom they were paid, and the original credit of £500 granted to the customer will be depleted to that extent. But in all probability no actual money (*i.e.*, no coin or notes) will change hands. Transactions like these might go on for years without their evidence ever having taken any

form but that of the stamped slips which we call cheques, and without there ever having been the translation of a single payment into tangible metallic money. Even if, in an isolated and exceptional case, coin had been the medium of the transaction, it would cease to be so as soon as it came into the banker's hands. Credit would take its place. The coin would lie in the till of the bank while the credit went out into the hurly-burly of the business world and did the actual work.

Can the banker then create financial resources at will by a simple entry in his books? By no means. He acts in the belief, which his experience and judgment enable him to form and to test, that the credit which he creates and launches into the world will in due course return to him again, either in the shape of coin and notes, or in a corresponding credit entry, for his benefit, in the books of another bank. For instance, let the customer receive a cheque for £100, in liquidation of an out-standing debt. He pays it into his bank, with an intimation that it is to be employed in reducing his debit balance. It will, therefore, entitle the banker to deplete, to the extent of £100, the credit store of the other bank upon which it is drawn, and to increase his own resources by the amount so transferred. The customer, again, may possibly obtain an unexpected supply of credit elsewhere, from a non-business source. If our corn merchant receives an unexpected legacy of £500, for instance, he may pay off his loan to the bank before it is really due by means of a cheque drawn on the bank where the legacy lies. No coin will pass in either case; only credit, as before.

The Larger Aspect.

This transaction of the flour merchant, small and trivial as it really is, has been discussed at length because it displays, in an easily intelligible form, the working of the principle of operation that lies at the root of all the financial and commercial activity of the City. That principle, which has already been outlined, may be re-stated in this way: business is not a series of single and isolated transactions, of which the last is invariably closed before the next is opened. It is a series of operations in which the component parts overlap each other, new transactions being constantly initiated, while as yet many of the old remain incomplete. Credit is the bridge which is incessantly thrown across that which must otherwise be the gap of inactivity between the departure of the resources on their errand of financial or commercial activity, and their return when it is fulfilled. Instead of isolation, tardiness, and discontinuity, these myriads of transactions are maintained in simultaneous activity under the influence of the credit which finances them and provides the means of their initiation, maintenance, and realisation. It is to provide credit for that purpose—to grant it where the circumstances justify, and to refuse it or withdraw it when the justification is not present—that banks and great financial houses exist.

These multifarious financial operations are not all concerned with business in its narrow sense of the sale and purchase of commodities for immediate, or proximate, consumption. The City works upon an immensely larger scale. It supplies credit by millions,

and by tens of millions, at a time, to States, to nations, to public authorities of all kinds, as well as to responsible private enterprises of every grade and purpose. Let a foreign State desire to build five "Dreadnoughts," at the price of £1,750,000 each. It issues a loan in the City for that purpose. In other words, it invites the public to lend £8,750,000 of credit, upon which it promises to pay a rate of interest varying with the risk involved. Great Britain will borrow at 3 per cent., but Brazil will not obtain credit supplies below 5 per cent.; while Honduras (a hardened defaulter) could not obtain it on any terms whatever. What will happen, however, in the case of an acceptable borrower, is merely a repetition, on a larger scale, of the experiences of the flour merchant. Investors who are willing to lend their credit will transfer it to the borrowing State, which will in that way accumulate £5,000,000 of credit in the hands of its London bankers. The credit will be transferred, again, as occasion demands, to the books of the shipbuilders' bank, and from that point again distributed among those who supply the steel, the wood, and the coal, as well as the innumerable other necessities of the work. To these larger contributors it will go as credit, keeping the form of a book entry from start to finish of its progress from investor to sub-contractor. For the benefit of the artisans who do the actual labour it will have to change its form from credit to coin, since they have no bank accounts, and the minute subdivision of their expenditure renders coin the more convenient medium of measure and transfer. But it is not an essential of the transaction. The suggestion that in a more

advanced state of society the worker will receive no coin, but only a claim upon the national stores of food and other necessaries, represents a perfectly feasible and easily imaginable state of affairs.

The Meaning of the Multitudes.

We are rapidly coming into the position of being able to give, at all events, a partial answer to the question with which we started, when we asked who and what were the teeming multitudes who poured into the City of London every morning. Since credit operations take place, through the banks, at the rate of tens of thousands per day, it is clear that a host of workers will be required to carry them on, as well as to record them and adjust them. These people will, in the first place, want the machinery for performing their task, in the shape of books of entry, cheque forms, pass books, and all the multitudinous species of documents which the expeditious adjustment of credit transactions requires. And while they are discharging their own special duties they must be supplied with food, with clothes, with daily literature, with personal comfort. Besides the army there must be the camp followers, and it is the army and camp followers that make one of the largest elements of the vast horde of humanity which daily throngs into, and out of, the City of London. While these primary facts are yet fresh in our minds we may remember that outside the City itself there is another thronging multitude whose existence is dependent upon the activity and prosperity of the City mechanism. The railways which have termini in London are

dependent largely, and some of them almost entirely, on the traffic which is the accompaniment of City life. The suburban builder and tradesman, as well as the more ambitious establishments in the West-end, are dependent on what the City public spends on them; and that fact is even more true and cogent in the case of those who provide the luxuries of civilisation —jewellery, amusements, motor-cars, and the innumerable requirements of the class which we call Society. Any theatre manager knows that dulness in the City means an idle box-office. The American market and the diamond market furnish a perpetual and unfailing illustration on a gigantic scale of Mill's method of concomitant variations. In this special instance action and reaction are not confined to these two departments. Dulness in Americans (to say nothing of a "slump," or even a panic, in Wall Street) cannot affect the diamond market by curtailing the purchases made for the wives of American millionaires, without depressing the price of De Beers shares. These are the bell-wether of the diamond share market, just as the mine occupies the leading position among the producers of the stones themselves. But if De Beers are depressed, the timidity tends to spread over the whole South African market, the "Kaffir Circus" as it is called, since the interests of many "big houses" are inextricably involved in both diamonds and gold. But Kaffirs have become as truly the index of the speculative markets as Consols are of the investment markets. Therefore the whole arena of speculative activity may quite possibly be, and as a matter of fact often is, influenced by the dulness and the "sagging" of Kaffirs. The consequence is that the existence of

a mass of undigested securities, creating discomfort in Wall Street, may lead, by a series of easily comprehended and financially natural interactions, to a "slump" in the shares of Siberian gold mines, with which Wall Street has not the slightest direct connection. These examples of action and interaction, briefly introduced at this point, may remind us how vast is the scope of the processes which we are engaged in analysing.

Environment and Speed.

So it is, then, that there is a constant change in the environment amid which the wheels of the great machine make their ceaseless revolutions. For weeks and months the mechanism may move at the maximum speed, so that its main product—credit—is in the most ample and instant supply. That will give us the conditions required for a "boom," with perhaps a tendency towards feverishness and inflation. These conditions were witnessed in the early months of the present year, when the investing public displayed a sudden and irrepressible eagerness to place vast credit resources at the disposal of rubber enterprises. The result was a huge increase in the quotations of the shares of existing companies, and the creation, by the score, of new claimants upon the public's lavishness in the matter of credit supplies. At another time (as during most of the period between 1900 and 1910) the motion will be sluggish, and credit will be dear and difficult to obtain. Existing business will be expensive to finance, and new enterprise will come but slowly and painfully to the birth. The

abundance, or the scarcity, of credit has affected the speed of the machine, besides producing countless indirect results. If the speed is slower, the stock-broker will have reduced his staff, because his clients are not investing or speculating so freely as they were when credit was easier to obtain. The men who are thrown out of employment will no longer travel to the City as regularly as of old, nor want the meals which helped to make the trade of the City restaurant. Therefore (to follow up one thread of causation out of the myriads which offer themselves) the restaurant will want less eggs, and a poultry farmer far away will begin to "feel a draught." Time and pen must fail if an endeavour were made to show in detail to what extent, and in what measure, the pace of the City mechanism affects half the social organisation of the world. But no great experience of life is required to endow the reader with the requisite mental equipment for tracing and scrutinising the phenomena on his own account, provided he will bear in mind the one central, dominant, all-pervading fact, that though the wheels are innumerable, the mainspring is single and solitary, and its name is credit.

Who Regulates the Speed?

But who, or what, regulates these changes of speed? Why is not the motion kept even and regular, so as to receive the maximum product of credit with the minimum expenditure of power, the least possible disturbance of the environment? The answer is that human society is yet in the making, characterised only too largely by selfishness, recklessness,

waywardness, and instability. The banker, upon whom there lies the obligation of translating his credit entries, at a moment's notice, into the metallic fact of current coin, must keep the social failings ever in mind, and check them, even with a stern and remorseless hand, if they threaten to imperil the working, or even the existence, of the great machine. If the grant of credit were imprudently, much less recklessly made, many traders would treat their credit facilities as income, and dissipate the proceeds in augmented personal expenses, to say nothing of luxury and ostentation. Others would launch themselves upon ambitious trading programmes, totally unjustified by their existing circumstances or future prospects. A third class, and this the more apathetic element of the community, would be content to "let things slide," and to meet maturing obligations by the creation of fresh bills upon futurity. The aggregate result would be an enormous inflation of outstanding credits, which must sooner or later, if disaster is to be avoided, be translated, or be at least capable of translation into coin. But this essential of sound credit will not be possessed by the spurious and inflated counterfeit which has been allowed to exist and flourish. The man who has employed the indiscreet and excessive credit facilities in the rash and unjustifiable increase of production finds that others have done the same thing for the same reason, and that the combination of imprudence has caused a glut in the market, which is fatal to the maintenance of prices, and retards the translation of goods into the means of repaying the credit by means of which they were produced. Hence come postponement, rumour, the withdrawal of further facilities,

a rising rate of discount, and very possibly disaster, as one trader after another has to admit that he is unable to meet his liabilities—or, in other words, that his credit is untranslatable, at the due date, into coin or irreplaceable by other credit of new and acceptable type. To watch the current conditions, to increase credit facilities where prudence permits, to withdraw them where it forbids, and to be always ready to "honour" the existing credit in coin or other acceptable credit (such as notes, or a valid claim on the credit of another banker) is the business of banking. As Mr. Hartley Withers puts it (in the admirable "Meaning of Money," to which all students of the subject are so deeply indebted), "Every credit operation implies a possible cash transaction, and prudent banking consists in making due allowance for the cash demands involved by the creation of credit."

The Science of Banking.

No department of the City mechanism is characterised by greater prudence, or conducted with more scrupulous care or more consummate skill, than that of banking. No business offers such opportunities of profit to the daring and reckless operator; and yet in none is there so incessant a realisation of responsibility, or a more patient and searching vigilance. British banking has now been made as nearly an exact science as the presence of the wayward human element permits. If bankers could be sure that customers would never lose their heads, and throng around the bank doors to demand their money, they

could make banking almost as exact a science as mathematics. As the timid and impulsive human factor cannot be eliminated, the greatest advance in the direction of precision in banking operations, and soundness in the institutions which conduct them, have been attained by the development of two other factors—namely, responsibility and solidarity. The former is most conspicuously evidenced in the scupulous care which is now an all-pervading feature of the banking system. No doubt it is partly the result of the greater publicity given to the position of the banks, and the more constant and skilful scrutiny of their balance sheets and periodical statements by a financial public which every year becomes more acutely critical. But it is also in very large measure due to the realisation by the bankers themselves that they are the trustees of the nation's financial resources, and to their determination to discharge their fiduciary functions with the maximum of devotion and thoroughness. As for the solidarity of British banking (by which I mean its realisation of a unity of responsibility, which must, on occasion, override all considerations of mutual business rivalry), that phenomenon, which is a development of the last thirty or forty years, is partly a result of the experience of gigantic common danger, and partly a consequence of the disappearance of many of the smaller concerns by means of amalgamation with greater institutions like the London County and Westminster, Lloyds, the London City and Midland, Parr's, and Barclay's.

The existence of a common danger was in recent years most conspicuously forced upon the attention of the banks by the critical position of Baring

Brothers in 1890. It was then realised, thanks to the acumen of the late Mr. W. Lidderdale, then governor of the Bank of England, that if there was a crash at Baring's, there was no knowing where the mischief would stop. The principle is simple; but its operation, in that instance, would have taken place upon a colossal scale, and with the most disastrous and perhaps irremediable consequences. If A. fails to meet his obligations, B., who depended on A., experiences embarrassment. C., in turn, seeing B. in difficulties, and knowing that he depends largely on what B. owes him, becomes apprehensive that he may be unable to meet the maturing obligations which D. will in due course present. The *malaise* spreads like a ripple from a stone thrown into a mill pond. A careless word in the newspapers, or the obtrusive tactics of half a dozen depositors at the door of a bank, may start a "run"; and within an hour the City might be on the edge of chaos. This was the kind of thing that Mr. Lidderdale saw looming within the area of possibility. His prudence stopped its advent by uniting the great bankers into a solid mass to face the common danger by guaranteeing such a huge sum as should, in the first place, ensure for the Baring assets the careful "nursing" which would enable their realisation at reasonable quotations, instead of the "knock-out" prices which panic sales on a demoralised market must necessarily have involved; and in the second, protect the outstanding acceptances, since their jeopardy, in the case of the greatest commercial acceptors of the day, must have precipitated a crash on a terrific scale. The formation of that giant coalition proved the solidarity of the great

banking interests whenever, in the face of a great financial peril, it is essential that they present a united and unbroken front. We may take it as an axiom of modern British banking that no great bank would now be allowed to collapse, even if it could so far evade the ceaseless scrutiny of its affairs by its rivals and customers as to get within sight of disaster. Perhaps it is permissible to add that a similar solidarity of international banking is very far from being the Utopian dream which the first glimpse of the idea would suggest to a conservative mind. The Bank of France aided the Bank of England in the Baring crisis. London and New York banking interests are now in such a relationship that the rumoured amalgamation of a great English bank and a great New York bank was questioned on the point of fact, not on the ground of feasibility or desirability. These are striking developments, which we shall better understand when we come to discuss the "world-market."

Examples of Amalgamation.

The process of amalgamation has within the last twenty years so greatly reduced the number of separate banking institutions as to bring into currency the expression "one big bank" for the purpose of a picturesque description of the goal towards which the absorptive movement is tending.

If it be desired to see examples of its progress, an examination of the history of almost any of the larger joint-stock or private banks during the last twenty years will provide an adequate object lesson. Parr's

Bank is a persistent exponent of the policy of amalgamation. It united with the old Alliance Bank in 1892, calling itself Parr's Banking Company and the Alliance Bank. In 1896 it absorbed the Consolidated Bank, and the opportunity was taken of dropping the attenuated title and adopting the simple name of Parr's Bank. Since then it has amalgamated Stuckey's Bank, thereby acquiring a solid and old-established west-country connection of the best class. The London City and Midland supplies an almost equally conspicuous instance of the progress and the success of the amalgamation policy. Till 1891 it was a provincial institution, known as the Birmingham and Midland Bank. The necessity of a London connection prompted the absorption of the Central Bank of London, and in that way the London and Midland Bank came into being. In 1898 (as the result, it is generally believed, of a desire to secure a large Stock Exchange *clientèle*) the City Bank was brought into this union of interests, and the name was again changed to the London City and Midland Bank. In this manner three institutions of first-class standing and magnitude have become one giant business, commanding a total authorised capital of £22,200,000, of which £15,235,680 has been subscribed. Finally, we are presented with such a spectacle as the amalgamation of two of the largest banking businesses in the country, the London and Westminster Bank and the London and County Bank, each of which had itself separately attained a huge financial magnitude. The scale upon which these transactions take place becomes every year more gigantic, and its results are, with every

repetition, removed farther and farther from what our banking ancestors would have regarded as the utmost limits of manageable possibility in the matter of resources, branches, and responsibilities.

It need hardly be pointed out how greatly the solidarity of the banks has been emphasised by this process, which brings into narrower area and closer contact the controlling forces of the whole banking system of the nation, while at the same time it scatters branch banks all over the land, so that not even a good-sized village is now left without the possession of banking facilities which have behind them the guarantees of a first-class institution. At present there is a good deal of competition among the branch banks of the rival institutions, so that their anxiety to cater for the public, combined with the multiplication of the facilities they offer, produces a force which is at once financially beneficial (in offering the best accommodation at the lowest price), and also financially educational. The branch banks of the great institutions, however, must be carefully distinguished from the "little banks," which live precariously on the attenuated balances of clerks and petty tradesmen; and the money-lending concerns which endeavour to dignify the trade of usury by calling it "banking," have no claim to a place in our survey. Finally, the observer may be cautioned against the French word "banque," which does not correspond in meaning with our word "bank," but may, and frequently does, describe the business of a petty share-broker, or even of a tout. As many of these French concerns are either crossing the channel to establish branch offices, or are endeavouring to

obtain an English *clientèle* by means of specious circulars in which the word "banque" is prominently displayed, it becomes essential that the misleading terminology be analysed.

The "Clearing House."

Before we proceed it will be desirable to clear up a problem, a difficulty, which will almost certainly have presented itself to the mind of the critical reader. "If all these multitudinous transfers and re-transfers of credit are going on," he may say, "how is it possible to keep pace with them? What machinery is adequate to the necessities of the hourly readjustment involved by the passage from bank to bank of thousands and tens of thousands of cheques?" The answer is that the transactions are centralised in the institution called the "Clearing House." There they are "set off" one against another, and only the balance ultimately passes. Parr's Bank has 500 cheques, with an aggregate of £65,280, on Lloyds; and Lloyds have 600 cheques, with a total of £65,380, on Parr's. Only the balance of £100 passes from Parr's to Lloyds by means of a cheque on the clearing account; the rest is merely book entry. How enormous is the volume of credit which is manipulated in this way (and which must otherwise require an army of messengers and clerks to manage it) is shown in the last annual statement issued by the London Clearing Banks, which indicates that the total amount of bills and cheques paid in at the Ban Clearing House, Lombard Street, during 1909 was £13,525,446,000, an increase of £1,405,084,000 as

compared with 1908. The total is the largest in the history of the Clearing House. The first total available to the historian of banking progress is that for the year 1868, when the amount was £3,425,185,000. The latest report adds that the figures of the Bankers' Clearing House for 1909 show the growing importance of the banker's cheque as a factor in the currency of the country. The largest amount paid on one day in 1909 was on Thursday, October 28th, £108,298,000. This is the second largest total ever paid on one day in the London "clearing," the record amount standing at £109,143,000, paid on May 15th, 1901. These are figures whose significance can only be fully grasped after mature reflection upon their real magnitude.

The Banker does not Initiate.

Throughout all our examination of the functions of the banks, a retrospective glance will show us one common and predominant characteristic running. The banker does not initiate business on his own account. All that he does is to scrutinise such business as other people purpose to initiate or to finance; and he then decides whether or not his stores of credit shall be opened to those who are responsible for the scheme thus placed before him. He may, and in certain cases he does, lend rather upon faith in the person than in the programme. But in no case would it be consistent with the ideals of modern banking that the bank itself should initiate and finance any schemes of its own, outside the realm of its specialised banking functions. The bank may

(within well-defined limits) finance a builder; but it will not build on its own initiative. It may accommodate a brick-maker with the use of its credit upon approved security; but as for "running" a brickyard on its own account—the very idea would cause a thrill of horror at the bank board table. The reason for this restraint is the necessity that the bank should always be ready to convert its credit entries into cash, if the need and the call arise. But buildings, brickyards, and going concerns are not convertible with the speed and facility that the banker's responsibilities demand. It is for this reason that the banker will only make temporary loans on real property (by equitable mortgage) so as to meet the convenience of a customer while a sale, or a permanent mortgage, is in course of arrangement. On the other hand, the permanent mortgage, which contemplates the locking up of funds for a lengthened period (combined with the inability to call them in meanwhile, under any circumstances, save at some months' notice) offers a proper medium for the investment of the funds of an insurance company, which is subject to no sudden and insistent demands, nor yet compelled to consider and to provide for the ineradicable waywardness and timidity of mankind.

Trust Companies: Finance Houses.

These considerations bring us, by a natural transition, to the trust companies and the great finance houses. Obviously there must be a vast number of enterprises, all at various stages of existence, from

conception to independent and self-supporting activity, which could establish no claim upon the legitimate favour of a banker's credit store, because they are either essentially and permanently speculative, or are in the speculative period, when their success remains a matter of hazard and conjecture. Their securities may not be freely marketable; or the business itself may be so risky, so untried, that it were useless to attempt to secure a public subscription to an issue of shares. Under such circumstances the banker's assistance and co-operation are impossible of attainment. If he were to associate himself with a business of this class it must perforce involve the "locking up" of funds for an indefinite period, during which there may arise an urgent demand upon his liquid resources. What is required is the assistance of some financial power which can afford to "put up" the money and await developments, while at the same time it is under no responsibility to third parties for the immediate repayment of the invested funds. That is precisely the position of a great financial house, or a powerful investment trust, which can take up the stock of the new enterprise and "nurse" it until it has assumed the definite characteristics of an established business.

For instance, a certain property, believed to be auriferous, has been brought to the notice of a great financial house which has large interests in mining. Tests are made; boreholes are put down; and expert mining engineers report upon the property, expressing the most favourable opinions of its promise. But to bring the property to the producing stage may involve the expenditure of a quarter of a million before a single penny of dividend gladdens the hearts

of the shareholders. To attempt a public issue on such prospects is probably to court disaster. Even if there is a respectable subscription, many of the shareholders will become weary and disheartened during the long advance to the producing stage, with the result that the shares will become a market by-word. These unwelcome contingencies are avoided by the provision of the capital from the resources of a great financial house, probably in consideration, first, of the shares thus issued to it to provide the working capital; and, second, of a "call" upon the rest at an agreed figure. When the producing stage is reached, and dividends are in sight, a public demand will forthwith spring up for these shares, since the waiting period is over, and, if the mine be on the Witwatersrand, its "life" and the amount of its dividends can be calculated almost to a nicety. The shares may probably go to a handsome premium, which, as they are sold, enables the financial house to reap the reward of its enterprise, labour, and patience. The "call" on the unissued shares, too, may prove extremely valuable, so that not only are the shareholders satisfied with their investment, but the financial house has no reason to regret its assumption of the original giant risk. There must have been a disastrous failure if the property had not come up to expectations. But this is rare, for the great financial houses can afford to employ the very highest advisory skill, and they are not often misled.

Much the same considerations will apply to the formation of a company to undertake an industrial enterprise in which the speculative factor

predominates, as, for instance, the working of a patent or the construction of a foreign railway. An appeal to the investor may be perfectly futile. He will come in when the enterprise has "felt its feet," but he will not come in now. Similarly, a foreign railway may need capital for extensions, and may be prepared to offer bonds which, under ordinary circumstances, would be readily taken up by investors. But if money is dear, or some political cataclysm or crisis has alarmed the monied public, the appeal may fall upon deaf ears. In that case the bonds will be taken over by a trust company at a price, to be later offered (not "issued," for the "issue" was to the trust company) under more congenial circumstances, and at a greater or less profit, to the investors who would originally have declined to look at them.

The adoption of these methods cannot altogether maintain an orderly and regular supply of credit for the initiation and the "financing" of approved enterprises. The elements of uncertainty and disturbance are too powerful for the attainment of these ideal conditions to be within the reach of the present generation or—if it be permissible to mingle forecast with analysis—of its immediate successors. But these modes of operation do undoubtedly tend to regularise the movement of the great machine, in the same manner (though not, be it candidly admitted, to the same degree) as the steam-governor regulates the working of an engine. To a large extent all the trust companies and the great finance houses play for their own hand: that is to say, they are not so profoundly conscious as the great banks of the fact that gigantic public interests, if confided to private management,

demand a ceaseless vigilance and a profound realisation of responsibility commensurate with the dignity and the magnitude of the trust. But of course it must be borne in mind that the banks are handling money which is not their own, money which they may be called upon, practically at any moment, to replace in the hands of its owners. The trust companies and the great finance houses stand in no such fiduciary position, and hence their greater freedom of action, their larger regard of the private, as distinguished from the public, aspect of their operations. None the less, however, do they make up a most potent and essential factor of the driving power of the great City machine, in that they control such huge supplies of the credit which is essential to its continued and healthy activity, upon which half the civilised world —nay, civilisation itself—depends for the means of sustenance and the stimulus of advance.

This analysis of the source, and the mode of storage and dissemination, of the force which forms the driving power of the City mechanism will have enabled us to understand the vital importance of the supply of credit to all grades of activity, upwards from the individual, the firm, and the ordinary trading company to the great undertaking which supplies daily facilities to a nation, or governs half a continent. But in subjecting the operations of the City mechanism to a still more minute analysis, we shall have to abandon, to a very large extent, any attempt at the inclusion of the business of the individual or the firm within the limits of the investigation. Data with regard to the operations of such undertakings are difficult, if not impossible, of access, even to the

expert observer. Much more, then, would it be a vain thing to suggest their inspection and consideration by the inexpert explorer of the vast and complex system of City activity. The result is that from this point onwards we must, in the main, confine our attention to those elements of the City mechanism which are open to public observation in various ways and from numerous points of view. The remainder of our study will be principally concentrated upon these public factors of the problem before us, upon the purpose which they serve, and upon the manner in which they serve it.

APPENDIX A.

The principle of the geographical distribution of investments, as practised by the great financial trusts, may be usefully exhibited in the list of investments below. This list shows the holdings, under the letter "M," which were held on January 31st, 1910, by the Mercantile Investment and General Trust Company:—

Manhattan Railway Co., Guaranteed Consd. Stock, $100, fully pd.	200 shs.
Manila Electric Railroad and Lighting Corporation, 5 per. Cent. 50-year First Lien and Coll. Trust Sinking Fund Gold Bonds, 1953	$200,000
Do. Capital Stock, $100, fully pd. (Bonus) ...	480 shs.
Manila Ry. Co. (1906), Ltd., 4 per Cent. "A" Deb. Bonds	£30,000
Do. 4 per Cent. "B" Deb. Bonds	£5,000
Do. 5 per Cent. Pref., £10, fully pd.	188 shs.
Marston, Thompson Evershed, Ltd., 5 per Cent. Cum. Pref., £10, fully pd.	1,000 shs.
Mashonaland Ry. Co., Ltd., 5 per Cent. Guaranteed Mort. Debs.	£4,000

Mason City and Fort Dodge Railroad Co., 4 per Cent. 1st Mort. Gold Bonds, 1955 ... ... $47,000
Melbourne City Properties Trust, Ltd., 4½ per Cent. Deb. Stock £5,200
Do. £1, fully pd. ... ... 3,900 shs.
Metropolitan Amalgamated Ry. Carriage and Wagon Co., Ltd., Ord., £1, fully pd. ... ... 3,000 shs.
Metropolitan District Ry. Co., Ord. Stock £5,000
Metropolitan Electric Supply Co., Ltd., Ord. £5, fully pd. ... ... 400 shs.
Metropolitan Ry. Co., 3½ per Cent. Convertible Pref. Stock £10,000
Do. Consd. Stock £10,000
Metropolitan Trust Co., Ltd., Ord. Stock £2,000
Meux's Brewery Co., Ltd., 6 per Cent. Deb. Stock £23,300
Mexborough and Rawmarsh Construction Syndicate, Ltd., £1 fully pd. ... ... 3,000 shs.
Mexican Central Ry. Securities Co., Ltd., 5 per Cent. Equipt. Collatl. Gold Bonds, 1917 ... ... $13,000
Mexican Central Ry. Securities Co., Ltd., 4 per Cent. "B" Debs. £5,000
Mexican Eastern Ry. Co., Ltd., 5 per Cent. 1st Mort. Debs. £9,200
Mexican Electric Light Co., Ltd., 5 per Cent. 1st Mort. Bonds (guaranteed by Mexican Light and Power Co., Ltd.) $100,000
Mexican Light and Power Co., Ltd., 5 per Cent. 1st Mort. Bonds, 1933 ... ... $125,000
Mexican Southern Ry., Ltd., Ord. Stock £12,000
Mexico North Western Ry. Co., 5 per Cent. 1st Mort. Gold Bonds, 1959 ... ... £10,000
Mexico Tramways Company, 5 per Cent. General Consd. Mort. 50-year Gold Bonds, 1956 ... ... $125,000
Midland Coal, Coke, and Iron Co., Ltd., 4½ per Cent. "A" Debs. £2,400
Midland Ry. Co., Deferred Converted Ord. Stock ... £20,000
Midland Ry. Co. of Western Australia, Ltd., 6 per Cent. Cum. Income Deb. Stock £10,000
Midland Uruguay Railway Co., Ltd., 5 per Cent. Deb. Stock £6,000

Millars' Karri and Jarrah Co. (1902), Ltd., 4½ per Cent. 1st Mort. Deb. Stock	£12,600
Do. 6 per Cent. Cum. Pref., £1, fully pd. ...	3,000 shs.
Milner's Safe Co., Ltd., £1, fully pd.	1,000 shs.
Milwaukee and Chicago Breweries, Ltd., Stock ...	£10,000
Missouri Pacific Ry. Co., Convertible 5 per Cent. First and Refunding Mort. Gold Bonds	$250,000
Monte Video Gas Co., Ltd., £20, fully pd.	500 shs.
Musselborough and District Electric Light and Traction Co., Ltd., 5 per Cent. 1st Mort. Debs. ...	£1,500
Do. 7 per Cent. Cum. Pref., £1, fully pd. ...	780 shs.
Do. Ord. £1, fully pd. (Bonus)	1,200 shs.

CHAPTER II.

THE MOVING MECHANISM—THE MARKETS AND THEIR CHARACTERISTICS.

We saw that the banker was under the necessity of being prepared to materialise his credit entries, if he were called upon to do so, in the shape of coin or notes. From this necessity arose his disinclination to make any but temporary advances (and these carefully restricted as to the aggregate volume of such transactions outstanding in his books at any given time) against security which was not readily transformable into coin. If a customer seeks an advance of £3,000, we might imagine, at first sight, that the banker would be better secured by the deposit of the deeds of a freehold, and otherwise unencumbered, property worth £10,000, than by £5,000 of Canadian Government Bonds. But the banker who would readily entertain the latter proposal might decline the former. The reason is that a house cannot be readily, much less instantly, exchanged for coin, and, if it fall into the hands of the banker in consequence of the non-payment of the loan, it is a source of continual and inevitable expense pending its sale. In sharp contrast to this state of things is the capacity, inherent in the Canadian Bonds, of being instantly turned into cash by a sale in the Stock Exchange. The bonds are readily marketable; the house is not.

This capacity of marketability, carefully borne in mind as the basic principle of Stock Exchange activity, will yield us the master-key of all those business dealings which are concerned with speculation and investment in stocks and shares. Consider the mental attitude of the man who is invited to invest £100 in a certain venture. He feels sure that, at the moment, he can afford the money. But he reflects that the time may come when he may have urgent need of it. Can he get it back? The answer is obviously in the negative. No enterprise of a permanent character could be initiated if there were the risk that at any moment those who had found the money would demand its instant repayment. If no other expedient be available, the funds for the initiation of new enterprise, or the extension of old, will be limited to that which its owners are assured of being able to spare for an indefinite period. This will be a very serious handicap. The most enterprising of investors and speculators may pause when the prospect before him is the "locking up" of his money, quite beyond reach and realisation, for a term of which the length is utterly undeterminate.

The Significance of "Transfer."

Far otherwise is it if the investor, though he cannot be offered the right of instant repayment, is guaranteed the facility of instant *transfer*. He cannot have his money back from the enterprise in which he has embarked it; but the machinery shall be created by which, at any moment, his interest shall be "bought out." He will drop out of the ranks of those who started the business, and another investor will give

him his money back, taking his place, his rights, and his opportunities. It may be necessary for some formalities to mark the transaction. If the security be "registered," the outgoing investor, and his successor, will join in the execution of a document called a "transfer," which records and evidences their agreement, and the terms upon which it was made. If it be "inscribed" (like many of the colonial loans) there will be a formal attendance at the bank where the books of the stock are kept. If the security be to "bearer," and fully negotiable, it will suffice for the seller to hand it to the buyer, and he will in that way, without further formality, pass the title, the rights, the profits, and the opportunities of which the document—be it bond, or debenture, or what not—is the representative.

With a little more brief explanation we shall have stripped the veil of mystery from Stock Exchange business, and exhibited its essential, and easily cognoscible, significance. Our investor of £100 desires to "get out." He feels pretty sure that there are others who would like to take his place. But how is he to find them? How can he be assured that the exchange of his security for money will take place safely and expeditiously? He cannot put it in his pocket, and accost every man whom he meets with the enquiry if he will buy. And that, indeed, is not the course which he ordinarily pursues when he is a buyer or a seller. He goes where other buyers and sellers are accustomed to congregate. If he requires a leg of mutton, he knows where there is to be found a person, called a butcher, who sells such commodities, and thither he proceeds. If he resides in a large

town, he may go where many butchers are to be found, in one part of a large structure, perhaps the local town hall, which is used by them and by other traders. If the town be ancient, he may find that the butchers have been gathered, since mediæval times, in one street, which has come to be called the "Butcher Row." But whether the purchase of the mutton takes place in a single shop, or in an assemblage of rival traders, its essential characteristic is the same. The purchaser is found to have turned his steps towards a *market*. The butcher's shop was a private market, the property of a single individual trader. The town hall was a public market, where many traders met to do their business, and, incidentally, to discuss their affairs and to exchange opinions.

The "Market" Examined.

If we scrutinise this market, however, we shall find that it suffers from one rather serious defect. We do not at first notice it, because we are so accustomed to markets which are defective in the same way that we have come almost to assume that it is an unfailing characteristic. The butcher's shop, as a market, is defective because it is "all one way." If the buyer of the mutton takes it back to the market he will only be able to induce the butcher to repurchase by making a sacrifice in the price. He will deal under conditions still less favourable if he takes to the butcher's shop a leg of mutton purchased elsewhere, and endeavours to induce the butcher to buy it. He will find very quickly that the market represented by the butcher's shop is an "all sellers" market. In other words, it

lacks the essential characteristic of a market in the complete sense of the word, which must be "free," and must offer the opportunity of dealing both ways with a reasonable "turn" in the price. This is the position of the great Stock Exchanges, with regard to the majority of securities which are "known" to them. They will deal in any quantity of stock, and are prepared to do business "either way" (that is, to buy or to sell) within a reasonable margin of difference known as the "turn of the market."

The brief consideration of one more of these introductory analogies will bring us to hand-grips with the actualities of City business. Let us suppose that, having been agreeably surprised by the complaisance of the butcher, in the repurchase of the mutton originally bought at his shop, we invite him to buy a piece of antique furniture. This he will almost certainly decline to do, for the reason that it is not "in his line." He has no expert knowledge of values and conditions; is in no accurate "touch" with the market, as he is where meat is concerned. Where he depends for his livelihood upon profits derivable from the turn of the market, he will not jeopardise his gains by dealing with a totally unfamiliar commodity. It is for precisely the same reasons (applied to what is perhaps a more dignified commodity), that before a security can be quoted in the "Official List" there must have been supplied to the Stock Exchange Committee an exhaustive statement of particulars as to the origin, properties, sponsors, and internal and external regulations of the authority or the company which the stock represents. The Stock Exchange must be placed in the position of having the fullest

knowledge of the commodity before recognition is accorded and dealings are undertaken. The scope of this principle of recognition extends even to a security which is, by some accident of its existence, incapacitated from official quotation. In that case the shares will be introduced to the market under the auspices of some responsible firm, which will be in charge of the processes of initiation, and will be assumed to have satisfied itself that the business is in order, and is genuine of its class, before taking up the duties of sponsorship.

The Beginning of "Dealings."

Whether the securities are, or are not, able to fulfil the strict requirements of an official quotation, they will, when they have once been "introduced," rapidly gain a market status of some kind or other. There may, in fact, be such an eagerness to purchase that dealings will take place in great numbers of shares before their denomination is known to the market. Dealings in Lipton shares went on for weeks before the issue of the company. As the shares had been dealt in at a premium, and as they were ultimately issued at a premium of 5*s*., the price turned out to be a premium *on* a premium, to the bewilderment of unpractised observers. That is to say, the quotation of 10*s*. premium for these shares signified a *market* premium of 10*s*. over the *official* premium of 5*s*. at which the shares were issued by the company. It meant a quotation of £1 (par), plus 5*s*. (official premium), plus 10*s*. (market premium). This was a remarkable instance of market status prematurely

acquired; an instance, perhaps, only surpassed in picturesqueness in the case of dealings initiated, say, at 10*s.* premium before it is known whether this is a premium on a £1, a £5, or a £10 share. A premium of 10*s.* on a £10 share is comparatively slight, but on a £1 share it is a very heavy initial burden.

With dealings once begun, the market may become "free," or it may remain more or less limited; or it may in time become nominal, with every bargain a matter of separate and prolonged negotiation. In the case of a popular security (probably a well-known speculative counter) shares may change hands by thousands in a few moments, and the price may move points at a time. Instances of this extraordinary activity have been furnished in their time by "Kaffirs," "Rhodesians," "Yankees," and rubbers. It is under these circumstances that the price tends to be very "close," or, in other words, the buying and the selling price come into such proximity as to be only separated perhaps, in the case of a share under £1 in value, by a few pence. The price being, for example, 14*s.* 9*d.*, 15*s.* 3*d.*, the "jobber's turn" is seen to have been reduced to sixpence, and may fall to an even more modest figure.

The "Jobber's Turn."

This "jobber's turn" is probably the most puzzling of all the phenomena presented to the observer of the City's mechanism—unless, indeed, the palm of bewilderment be awarded to the foreign exchanges. A distinguished journalist, who found himself temporarily in charge of a great political daily, is understood to have

sent for the City editor, and to have severely reprimanded him for quoting Consols at $89\frac{1}{4}$—$\frac{3}{8}$. "There cannot possibly," said he, "be two prices for the same commodity in the same market." That aphorism may be accepted, in one sense, as an elemental economic truth, though we must paradoxically qualify it by the reservation that, unless there *are* two prices, the market will cease to exist. For since people do not attend a market, or operate therein, merely for amusement, or from motives of benevolence, it follows that if the price be one and immovable, no man will buy for the mere pleasure of holding for a time, and reselling at the same quotation. Let us revert to our butcher, to whom we tried to resell the leg of mutton previously bought at his shop. We bought it, let us say, at 10*s*. The butcher will certainly not repurchase it at that price. But if we offer to resell it to him at 9*s*. he may reflect upon the possibility of another customer appearing, to whom he can again transfer it at the original selling price of 10*s*. The risk he runs is the non-appearance of such a customer, or the possible deterioration of the mutton. If the circumstances are such that his experience of the meat market suggests either of these contingencies, he will reduce his price; that is to say, he will not repurchase the mutton at 9*s*., but only at 8*s*., or perhaps at 7*s*. The profit on the first sale, at 10*s*., let us say, was 2*s*. The butcher then repurchases at 8*s*., and again sells at 10*s*., making a further profit of 2*s*. on this transaction. In the language of the City and the Stock Exchange, the butcher quotes 8*s*.—10*s*. for a leg of mutton. He will buy at 8*s*. or he will sell at 10*s*. This is all quite natural, perfectly easy of

comprehension. Let us leave the butcher and apply these principles to the jobber in the stock market.

By means of this principle, now before us in the simple guise of ordinary daily experience, we can unlock the mysteries of the double price, and penetrate the secrets of the "Official List." We can see that the close quotation of Consols (the "turn" being only $\frac{1}{8}$) indicates a market absolutely free, where business can be done at any moment and to any extent. Where the price is wider (a full point or more) we justly conjecture that the market is not so free, and that the jobbers measure the dealing risk as greater. In other words, they consider that in the case of these stocks it will be more difficult for them to "even" their books—that is to say, to adjust the responsibilities which they have incurred as buyers or sellers. All through the list of Commercial and Industrial securities we may measure the frequency or the rarity of dealings, or else infer an unwillingness to deal at all, by means of the evidence presented to us by the width of the price. An abnormal "turn" —such as that represented by a quotation of 50—60 —suggests the almost entire absence of a market, where the jobbers require so large a premium for the assumption of the risk of dealing. Here and there we shall find a blank where the quotation ought to stand. In those instances the market has completely disappeared, and the stock is no longer dealable in the ordinary way. Finally, it should be added that there are prices which seem, at first sight, to indicate a fairly free market, though it is found, upon inquiry, that the market is "all one way." The stock of the great trust companies at one time offered an instance

of a market where selling was easy, but buying impossible.

The "Ex-dividend" Factor.

In scrutinising these market phenomena, however, and weighing their significance, the observer must beware of the influence of the accruing dividend. Take the case of a 4 per cent. bond, paying its half-yearly dividends by coupon on January 1st and July 1st. As either of these dates approaches, the price of the stock will tend to move upwards, as it becomes "full" of dividend. If, immediately after the payment of the January coupon, the price was 99—101, it will move towards 101—103 as we come nearer to July, since, other things being equal, the then purchaser will obtain £2 more (*i.e.*, the July dividend) for his money than he would have done had he bought in January. But there will come a date when the Stock Exchange will designate the stock as "ex-dividend," meaning that a purchaser after this date will not receive the July dividend, which is retained by the seller. The striking of the dividend off the price will cause an apparent fall, which is really no such thing. It is against this risk of misinterpretation that the present paragraph is designed to guard the observer. Occasionally the "ex-dividend" declaration does not affect the price. The stock is then said to have recovered the dividend, though the quoted figures will in fact exhibit no change.

How the "Width" is Determined.

The causes which ultimately determine the width of a price, or form the mainspring of its fluctuations,

are innumerable; sometimes palpable, sometimes inscrutable; mainly based on fact, but occasionally on mere fancy and fickleness; now slow, now sudden. The palpable may be illustrated by the totally unforeseen default of an important State, with a large mass of its national securities in British hands. The price would fall instantly and violently, and the stocks might become quite unmarketable until there had been time to investigate and consider the operative causes. A foreseen default might slacken dealings and widen prices, but the knowledge of its approach, long before its actual advent, would give time and opportunity for a thousand processes of adjustment, minimising, if not altogether avoiding, the final shock of definite announcement. Less palpable than the cataclysm of a default are the direct or indirect influences which the market considers to be worthy of notice and calculation. An instance of the direct influence would be furnished by the effect on Argentine stocks (the national securities, as well as the stocks of the various British enterprises working in the Republic) of the news of a revolution in Argentina; while the indirect effect would become obvious in the shape of a decline in Uruguayans, and quite possibly in the concurrent weakness of Brazilians. This kind of simultaneity, where the one movement affords no logical reason for the others which accompany it, is vaguely attributed to "sympathy," an expression of very frequent occurrence in the City article. Less genial critics have been known to attribute it to our imperfect educational methods in the matter of geographical knowledge.

Of the impalpable, the subtle, the fanciful, and the

inscrutable forces which affect the width of prices and the marketability of stocks, so many instances might be given as to seriously embarrass the observer. It will suffice to elucidate a couple, as types of a multitude, leaving the critical student to discern and analyse others for himself. Why, then, should a sharp rise in the price of glycerine produce nervousness in the "Kaffir" market? What possible interest can the dealers in mining shares have in the current quotation of a chemical product? The answer is that glycerine enters largely into the production of explosives, without which Kaffir mining cannot be carried on. A large advance in the price of glycerine, therefore, involves an increase of working costs; and this must affect dividends. Again, why should the rumoured discovery of an india-rubber substitute, a chemically synthetised rubber, affect the quotation of tea shares? The answer is that rubber is a valuable by-product on certain tea estates, where it adds materially to the profit and the consequent dividends. If its value be destroyed by the discovery of a substitute, there will be so much less profit to distribute among the tea shareholders.

The Personal Factors.

The realisation of the enormous scope and intricacy of these multitudinous influences must, however, force us to confront a cognate question. How is it possible that an adequate knowledge of all the facts, inferences, consequences, and probabilities can ever be acquired by the single mind of any man, to say nothing of their maintenance in sufficiency and capacity as hour after

hour adds to their mass and their complexity? The answer is that the attempt at market omniscience is not made. In the first place, the active members of the Stock Exchange are divided into two classes, on a principle which is not operative elsewhere. Some are brokers; the rest are jobbers, or "dealers" as they are occasionally called. The broker enters the market solely on behalf of his client, to buy or to sell on his account. He has no personal interest in the movement of quotations. The reward of his exertions takes the form of a commission (variable in amount, but varying only within well understood limits) upon the amount of the transactions effected. The jobber, on the other hand, has, and may have, no direct relationship with the outside public. He is approachable only through the medium of the broker, since the public is not admitted to the Stock Exchange. But as the jobber is under no fiduciary obligation towards the public, he may "make" what prices he pleases, subject only to the custom of the Stock Exchange, the state of his own book, and the rivalry of his fellow dealers. His business is to stand in one of the sections of the Stock Exchange known as the "market" in a given class of security, and to reply to the inquiries of brokers who, acting on the instructions of their clients, seek out the jobbers in the particular stock which is the subject of these clients' interest. So, if the broker be instructed to buy Chartered, he will proceed to the market where congregate the jobbers who deal in those shares. And if the order be received "after hours," he will seek his quarry in the "street," at a point with which he is well acquainted, and do the business there; the fact

being that after the "House" is closed (at 4 o'clock, save on account days, when the closing time is 4.30) dealings proceed in the "street," and are continued, in times of activity, until 7 or 8 o'clock, to the accompaniment of a tumultuous roar of voices which might lead an unwary visitor to suppose that he had stumbled upon a riot.

Responsibility of the Bargainer.

The public, as we saw, is not admitted to the Stock Exchange, either as spectator or participant. In New York the client may enter the gallery in order to observe the procedure on the "floor," but that is the extent of his permissible intimacy with the procedure of the market. In London even this exiguous participation is denied him. He must remain outside. At first sight the investigator may be astonished at these apparently arbitrary limitations. He may even be disposed to sympathise with the suggestion so often made, but never realised in recent City history, of an "open" Stock Exchange. A deeper scrutiny of the necessities of the case will, however, demonstrate the necessity of these restrictions. In the conditions which obtain in a modern financial centre a maximum of confidence in the *personnel* of the market is an essential of its healthy and vigorous existence. There must be an assurance that bargains will be carried out, that sharp practices will not be tolerated. Since each transaction is but a link in an endless chain, there must be means of compelling the completion of the individual links at the proper time, so that the process of elongation may proceed with the

maximum of punctuality, speed, and efficiency. In the old-fashioned country market, where the personalities assembled round the ancient cross on an agreed day, all comers were known to all comers. Consequently it was possible for the buyer or seller to "size up" from his own knowledge the man with whom he was dealing; and this with regard both to his honesty and his capacity. The dealings involved direct relationships, and, therefore, an undeniable responsibility. The corn dealer bought from the actual grower, the horse passed directly from one owner to another. These conditions cease to be feasible when the *habitués* of the market are numbered by thousands, and when half of them (as is the case on the Stock Exchange) are buying and selling for others, and not for themselves. An unknown visitor to the market, buying and selling as agent for an undisclosed principal behind him, represents the merest adumbration of responsibility, intolerable where more than sixpence is at stake. Consider the case of the unknown visitor to an "open" market who desires to buy 5,000 Chartered as a speculation. If he can find a seller who is willing to trust him, his opportunities are immense. If Chartereds rise, he will take delivery. If they fall he may shake the dust of the market finally from his feet, and his vendor will search for him in vain. These conditions of irresponsibility and anonymity are in fact impossible, unthinkable. The members of the Stock Exchange, to whom alone, as well as to a limited number of their clerks, entrance to the "House" is permitted, are elected annually by a committee which may, in its absolute discretion, omit to re-elect a given

individual, though in fact it more often purges the Stock Exchange by expulsion or suspension than by omission to re-elect. The elected member is subject to strict rules. He must be either broker or jobber, but he may not be both. He may not go to law with a fellow member without the permission of the committee. He may not as broker sell his own stock to a client, though he may, if he disclose the fact to both, "marry" two clients, one of whom desires to sell certain stock at the same time as another desires to buy it. In fact, the presence of the broker or the jobber on the "floor" of the "House" is a proof that he is under the jurisdiction of the committee, that he will be held to his bargains, and that (up to a point represented by the liabilities of his sureties, at all events) he is financially responsible to those who deal with him. In the markets of the older type, around the ancient cross, personal acquaintance offered the primary test of the bargainer's responsibility. In those of the newer type the test is official status (the fact of membership) reinforced, of course, by an evergrowing knowledge of individual resources, as dealing experience brings wider knowledge of the men and their ways.

Broker and Jobber Contrasted.

The broker and the jobber must, it is clear, contemplate the market under two different aspects. The broker's interest is fiduciary; that of the jobber is personal. These differences of aspect produce an instant division of responsibility. To put it quite bluntly, the broker is looking after his client, while

the jobber looks after himself. Hence the need and the purpose of an omniscient circumspection fall at once into distinct sections. But the process of disintegration, as applied to what must otherwise be an intolerable weight of care, is carried to a much more advanced stage by the limitation of each jobber's activity to a comparatively small number of securities, all of them more or less of the same class, and subject to similar influences. The jobber in the foreign market, for instance, will keep a vigilant eye upon the political, financial, and social developments that affect the values and prospects of the foreign bonds in which he deals. Upon these he is an authority, armed with a knowledge which must be maintained in unfailing keenness, since, like the sword of a mediæval soldier, it is all that he can interpose between himself and fatality. The metaphor of the sword fails in adequacy because the weapon is available only against a present peril, whereas the jobber must always endeavour to anticipate the coming contingency : in market parlance, he must "discount" it. Present "instinct" and a forward watchfulness presuppose a capable judgment and an extensive knowledge of the immediate subjects of observation. But the broker needs no such profound and intricate acquaintance with the various stocks. A general knowledge, based upon his own observation and experience, reinforced by the gossip of the " House," he will undoubtedly possess. He will use it occasionally to advise a cautious or inquiring client, or to warn the headstrong and the rash. He will possess, too, such a knowledge of the characteristic technicalities of Stock Exchange geography as will remind him that Rio

Tintos, as an international stock, have their dealings in the foreign market though the company is engaged in copper mining. But these are mere outlines compared with the extensive and detailed information which the jobber requires. In truth, it is this concentration of attention upon the security, or the group, in which the jobber specialises, that lays him open to be occasionally victimised by the initiation of "dealings" in a stock which has no existence outside the imagination of the irrepressible practical jokers who start the bidding and maintain it until some indiscretion "gives the show away."

Markets, Natural and Artificial.

By this time the investigator will begin to realise how vast and complex are the phenomena which we have called the "Mechanism of the City." But neither the vastness nor the complexity need appal him if he will bear constantly in mind that, just as "credit" is the key-word to a knowledge of the driving-power of the City mechanism, so are "market" or "transfer" the key-words to the comprehension of all its myriad movements. The paramount purpose of all this mechanism is the maintenance of a market, the more free the better, in the securities with which it is acquainted. In the absence of a greater or less freedom of dealing, the investor will not buy, since he fears that he may never be able to sell; and the banker will not lend, since he cannot be assured of ready conversion into cash, if he has to call his reserves out for defensive purposes against a "run." Some of the securities

known to the Stock Exchange are always a "free market," and this to practically any extent; subject, of course, to the necessary consequence of continued pressure to sell, or irrepressible efforts to buy. Even Consols will not hold their ground against the offer of millions of the stock. The quotation will give way somewhat, though the market will, save under altogether exceptional circumstances of national or financial crisis, remain as free as ever. In other cases the market is free only within limits, liable to change very sharply upon the advent of a buyer or seller. A seller on "deceased account" (*i.e.*, on behalf of the executors or trustees of a deceased holder) is a frequent Stock Exchange bogey, whose alleged presence is invariably employed as the reason for a fall when all other explanation fails. As against all these instances of a normal and natural, market, however, there must be set in sharp contrast the artificial state of affairs which is induced on the one hand by the process known as "making a market," and on the other by reverse endeavour, called "banging the market." A market is "made" by vociferous "bidding," and the consequent creation of an appearance of activity and assiduity, though the bargains are in fact those of persons who are employed to enter into them, and who are specially protected against loss on the transactions. The result of this theatrical display is often to cause violent fluctuations in the price, so that the attention of speculators is attracted. Their entrance to the arena introduces the factor of genuineness, and, if there are enough of them, the market will begin to take care of itself. That is to say, the "making"

process is complete. Conversely, a market may be "banged" by the ostentatious (and generally speculative) offers of huge "lines" of stock, which cause prices to fall rapidly away, and, by inducing panic sales by real holders, bring all the factors of utter demoralisation upon the scene. Bank shares cannot be "banged," since, under Leeman's Act, the contract note must contain the distinguishing numbers of the shares sold; and these cannot possibly be furnished by a speculative seller. Neither the "making" nor the "banging" of a market is necessarily a process incapable of justification save by the personal interests of the operators. The "making" is often the only means by which the public can be attracted to a stock which has genuine claims upon its attention; and "banging" (albeit occasionally carried out for meaner ends) is frequently the only method available to burst the bubble of an inflated price, which otherwise might swell until disaster became the inevitable concomitant of collapse. The careful reader of a good City article will obtain constant hints which will guide him in the formation of a sound judgment upon these and similar market tactics, besides training his own mind, at the same time, to make its own deductions by means of a critical observation of the quotations and of the co-existent conditions.

The Auxiliary Markets.

His survey will be incomplete if it be confined to the London Stock Exchange, or limited to the stock markets even of the whole world, as distinguished from

other areas where rapid buying and selling, on a very large scale, and the instant adjustment of prices to conditions which vary from hour to hour and from moment to moment, forms the incessant and paramount concern of those who frequent them. It will be convenient to deal with these in three groups: (1) the other Stock Exchanges in Great Britain, known to the City as the "Provincial Exchanges"; (2) the extra-British Stock Exchanges, those of the Continent and South America being known as "bourses"; and (3) the produce markets, where corn, oil, rubber, and a hundred other commodities are the centres of daily interest. The provincial and extra-British exchanges are now in so close a relationship with the great London institution that we may consider a "world market" as almost visibly present before our eyes. The produce markets to a great extent reflect the sentiment of the Stock Exchange, and are themselves, at every turn, the sources of influences operating upon it. All these markets, taken as a palpitating whole, form a seamless web of allied interests, so that it is impossible that the smallest shock to, or the feeblest tremor in, the fabric should fail of response at every point from centre to circumference of the far-flung network.

Broadly speaking, the provincial exchanges deal mainly in local securities. Up to a point some of the larger institutions can do business in stocks like Consols; but as a rule business in these securities is sent to London. There are, also, some rather prominent instances of the monopolisation of a given class of business by certain provincial exchanges. Glasgow specialises in oil securities, and "keeps the market" in

Tharsis copper shares. Birmingham and Dublin are the centres of business in cycle and rubber tube stocks, not all of them by any means local in vogue, or held solely by the local public. With such exceptions, the provincial exchanges may be accurately described as mainly concerned with the local securities. Manchester has the fullest acquaintance with, and offers the readiest facilities for business in, cotton mill shares, just as Newcastle and Hartlepool concern themselves with the stocks of great north country enterprises like Armstrong-Whitworth, and North Eastern Railway stock.

One minor factor of the provincial markets must be mentioned to complete the survey, though it really forms no present part of what we have called the "Mechanism of the City." The reference is to the stock and share broker who, in addition to carrying on the business of an estate and insurance agent, often makes himself into the market for local (and occasionally quite obscure) securities, in a provincial town which could not possibly support a Stock Exchange. Such a man may do a very active business, on profitable terms, since he is, in the majority of cases, the only medium of dealing in the small local securities. He offers us a provincial instance of the "one man market." That term, on the London Stock Exchange, is generally applied to the conditions of a security in which only one jobber will deal. In the provincial instance it has the true signification which the terms imply—that of a person who will deal either way in a certain group of stocks. The present tendency is, however, for the provincial brokers to coalesce into associations which,

in a greater or less degree, are analogous to the London Stock Exchange in their possession of a corporate sentiment and a central authority. There is a desire (not to say a necessity) to unify, as far as may be feasible, the rules and modes of dealing, so that transactions may be adjusted with the maximum of facility and certainty; and at the same time there is a consciousness that for the attainment of these eminently desirable ends a representative body, with a predominant jurisdiction within the organisation over which it presides, should be called into existence. There are subordinate inspirations, of course. One is the desire on the part of provincial brokers to be relieved of the necessity of competing with each other by means of extensive advertising. This has been done in certain cases by the prohibition of advertisements altogether on the part of any member of the Exchange or the Association. These tendencies are interesting and significant, because they clearly indicate the "drift" towards centralisation, which is so characteristic a feature of nearly all the economic phenomena of our age and nation. With the "outside" broker, the man who is subject to the jurisdiction of no organisation whatever, I deal at a later stage, from another point of view.

The main function of the provincial Stock Exchanges, however, regarded from the point of view of their place in the financial mechanism, is to assist in maintaining the greater efficiency and freedom of the share markets as a whole. In so far as they are concerned in strictly local securities unknown outside their own area, they are purely local markets. As soon as they make prices and conduct dealings in

securities which have a vogue in the national markets (*i.e.*, which are known on the London Stock Exchange, and on some, if not all, of the other provincial Stock Exchanges)—as soon as they have extended the scope of their business in this way—they become a factor in the national market. And, finally, when they deal in securities which are known on extra-British Stock Exchanges (so that, for instance, they and the Paris Bourse exert an influence upon each other), they have attained the dignity of being elements of the world-market, which in the present stage of our knowledge represents the widest conceivable area over which business activity may be spread.

What is a "Market"?

What, then, is the essential characteristic of a market? It is an area, be it large or small, within which the interchange of information is sufficiently rapid to prevent the simultaneous existence of two distinct prices for the same commodity. Take the simplest case, that of the ancient building in the centre of a market town, whither our ancestors were accustomed to resort to sell their produce. Let us imagine a present market assembly formed of the farmers who come to sell eggs and of other persons who come to buy them. Neither the farmers or their customers come with the object of buying *and* selling eggs. Each class desires to deal only "one way," and in that respect differs from the jobber on the Stock Exchange, who is, under normal circumstances, ready to deal "both ways." Eggs

are being sold at eight for a shilling, save in one corner of the building, where eggs of precisely the same sort are sold at twelve for a shilling. How long will that state of things continue? Not for more than a few moments, since the news that eggs are cheaper in the aforesaid corner will instantly become known, and, as long as the supply continues, nobody will buy elsewhere than at this favoured spot. The variation in price will be remedied in one of two ways. The sellers of eggs at twelve for a shilling will discover that the buyers are willing to purchase at the higher price, and they may consequently decide to raise their egg quotation to three-halfpence each. That is to say, they raise their price to the figure ruling in the other parts of the market. On another supposition, the supply of these vendors at twelve for a shilling may be so ample that they are willing to go on selling at that price. If that be so, the quotation of eight for a shilling will cease to exist, since no person will be so foolish as to pay three-halfpence for eggs which, elsewhere in the same building, he can purchase for a penny. That is to say, the old price of eight for a shilling will be re-adjusted downwards to the new quotation of twelve for a shilling. The concurrent existence of the two prices for the same commodity in the same area is impossible. If we suppose its maintenance for even a short time, we can see that traders would begin to buy eggs in one part of the market at the lower price, and to sell them in the other part at the higher price; and this is an unthinkable state of affairs.

But although it is unthinkable as permanently

existing within the single area, we may, if we imagine ourselves amid the conditions which encompassed our mediæval ancestors, contemplate it as a possibility in two separate markets a few miles apart. As the facilities of communication and transport are small, if not non-existent, there may be a temporary scarcity in the one market simultaneously with the existence of superfluity in the other. Eggs at Norwich and eggs at Peterborough might even now, for a short time, command widely different prices. In the Middle Ages the difference might have lasted for months, or have been permanent, since in the first place information of its existence would travel slowly, and in the second the difficulty of transporting eggs to the better market from the worse might defeat the operation of the most important factor of re-adjustment, viz., the rapid distribution and interchange of the supply of the commodity between the two areas.

Effect of Transport and Communication.

But in our day the difference in price could not be of long duration, at all events where the markets are normally situated. The prices of all commodities are the subject of daily record, and of equally frequent close study by experts, who would instantly note the difference between two local quotations, and initiate operations that would cause a rapid adjustment and approximation. When I say "normally situated," I mean that the conditions of communication and transport must be such as now ordinarily attach to a civilised community. If the difference in price is produced by

a scarcity in one market, which can only be remedied under expensive conditions of transport, the secret of the difference in prices may be found in that fact, and may be incapable of adjustment as long as the abnormal conditions obtain. A great disparity between the price of Stilton cheese in Birmingham and Leicester will be remedied by the rapid communication and transport which is available between these two great centres. But a variation between the Birmingham and the Greenland quotations of Stilton cheese has its origin in difficulties of transport and climate; that is to say, it cannot be adjusted by the ordinary means. There was a case fairly recently where stock was sold on this side for New York account. The certificates had to be sent over from New York, and pending their arrival the price rose by leaps and bounds, until ultimately the Stock Exchange committee had to intervene to "hold up" the transactions until the certificates arrived. When they did, prices were rapidly adjusted. But what had happened meanwhile is an apt illustration of the point that facilities for rapid communication and transport are essential to the maintenance of an even price in the nation-market or the world-market. Every increase in those facilities widens the area of the market, and augments the speed of the internal adjustment of prices to a common level at a given moment.

These essential conditions for rapid adjustment exist in all the securities which have gained the distinction of being known to the London market and to all the provincial stock exchanges. The telegraph, the telephone, and the express train have carried the destruction of time and space far enough for these

islands to be practically one market area. This is a remarkable state of affairs, upon which even so far-seeing an observer as Adam Smith must gaze in amazement, could he revisit the earthly tabernacle that once held his venturous, searching intellect. But the phenomenon becomes much more striking when we contemplate its development into a world-market: into an area coequal with the civilised world, within which prices shall tend to the same contemporary level as rapidly, as naturally, and as irresistibly as water. The process is already well advanced. For the "Yankee" stocks in which they deal, Wall Street and the London Stock Exchange are already one market. Within the last few years the enormous Dutch interest in American railroad stocks has given Amsterdam an increasingly important status, so that we may reckon it as included in this Americo-European area of exchange. There is little doubt that a few years will further extend it by the inclusion of Berlin and Frankfort, as well as Paris. Such stocks as Rio Tintos and De Beers are freely dealable in an international market which includes London and Paris. Many of the leading "Kaffirs" are as well known to Paris as to London, so that either section of the joint market moves instantly in response to buying or selling in the other. So well equipped is the vast mechanism in its means of communication, that during the French postal strike the quotations were sent from one market to the other, *viâ* New York, so expeditiously as to prevent more than momentary variations in the prices ruling in the respective London and Paris areas.

"Results of the World Market."

Just as the existence of a "bear" account tends to steady a nervous or a "slumpy" market by bringing in purchasers as prices fall, so does this wide international business area offer an automatic means of maintaining a more stable market equilibrium. If there is a rush of London selling, Paris (to confine ourselves to Europe, though the illustration would be equally true of New York) may at the moment be a buyer, and in that way prevent what might otherwise be a heavy fall. It is quite true that occasionally London and Paris sell at the same time, and the consequence of their nervousness becomes manifest in the record of a hundred "falls" in the Kaffir lists of the financial newspapers. But these occasional episodes of utter collapse do but bring into greater prominence the wholesome influence of the wide market area in steadying prices under normal circumstances, and in offering absorptive facilities which are strong enough to bear the strain of sales at all ordinary times, and so to ensure the unbroken existence of a capacity for rapid transfer, which is the prerequisite and indispensable condition upon which international investors and speculators will interest themselves in the various stocks. To bring about so desirable a state of affairs it has been necessary for the great financial houses to abandon, to a certain extent, that conservatism which has been predicated as an ineradicable characteristic of our national business methods. The continental buyer insists on a "bearer" security with the same tenacity as his British *confrère* displays when he prefers the "registered" form — though British

preference is being rapidly modified in this respect, thanks to bankers' strong rooms and the institutions known as safe deposits. To humour the continental investor and speculator, millions of bearer certificates have been created; and no small proportion of their number lie in receptacles whose secrets are known only to the thousands of thrifty Frenchmen (and Frenchwomen) who are adepts in the art of unostentation, acquisition, and retention. The rapid progress of internationalisation has been remarkably signalised in recent years by the daily publication of the *Financial News* in Paris in French, as well as in its ordinary English garb in London.

Candour demands one further remark. The widening, and consequent steadying, of the market is the main purpose aimed at and achieved by the creation of the international market, that germ of the ultimate world-market now well within our sight. But it has not been by any means the only purpose. It has been found possible to "place" large amounts of stock (particularly mining shares) in the hands of the thrifty French investor by the simple process of widespread circularisation. It has only been necessary to comply with the requirements of French law, and to supply the stock in the form—to "bearer"—which alone the French investor will accept. In this way many millions have been placed in France among a public which locks up the certificates, and is not, like its British contemporaries, ever vigilant to "take a profit" on the smallest advance in the quotations. This ingenious scheme, however, is merely an accompaniment (and to some extent, no doubt, a consequence) of the process of internationalisation. Its consideration

adds to the fulness of our survey, but is not essential to it.

Other Contemporary Markets.

There remain for consideration the metal and produce markets. The examination of the stock markets will have furnished the better introduction to this last element of the immediate subject of the present chapter if we bear in mind that the Stock Exchange does not deal in tangible property, but only in documents which represent the title to it. A watchmaker, on the other hand, deals in the property itself. But a mortgage bond is not property in itself. Its intrinsic value is only a few pence. It is, however, a title to share with others in the revenue of the property, and possibly to join with them in foreclosing upon it if the stipulated revenue be not forthcoming. So, again, the share certificate is evidence of a title to a greater or less portion of the revenue from a given undertaking. But the undertaking itself may be situated on the other side of the world, and no single shareholder may ever have set eyes upon it. As we saw at the commencement of this chapter, these titles pass from holder to holder, sometimes by formal *transfer*, evidenced by signatures and witnesses: sometimes by mere passage from hand to hand, with no formality save the passage itself, the *traditio* of the Roman lawyers. The result is the simplification of the transfer of title to a degree that would have been absolutely incomprehensible to the legal and business minds of a couple of centuries ago. By the purchase in London, for instance, of a block of mortgage debentures an

investor may become the proprietor of a greater or less share of an antipodean estate with scarcely more trouble or formality than is involved in the acquisition of his daily newspaper. If he is able to buy on a sufficiently large scale, the control of a great commercial enterprise may pass into his hands by means of his purchase of a majority of the shares ; and yet the whole transaction may involve no more than the writing of a cheque, and the closing of the fingers upon a bundle of share certificates handed over in exchange.

The reason of this simplicity is that in transactions of this kind no question of *quality* arises. One share certificate is as good as another of the same class. Preference share is equal to preference share, and ordinary to ordinary. Evidently, then, if we can standardise commodities in the same way, they can be dealt with by means of representative documents, without the necessity of handling the things themselves. And this is precisely what is done when we deal in copper, silver, or tin of a given standard. When we learn that in the copper market G.M.B.'s (Good Merchantable Brands), are at a certain price, we get the ideas of quantity, quality, and quotation all clearly focussed. There is no need to inspect the bars. Their quality is known by the description. We may deal in them to any extent without seeing them, and without any more evidence of their existence than is afforded by a few pieces of paper. We see the whole principle of a cognoscible and recognised quality well illustrated in the case of a metallic coinage, which fulfils its purpose so well because of the unbroken uniformity of the material out of which it is minted

Any hundred sovereigns are just as good as any other hundred. We smile at the story of the bank depositor who, with no appreciation of this principle, required the banker to undertake that the *same* twenty sovereigns (and not any different ones) should be handed back to him when he came to withdraw his deposit.

We must of course recognise the fact that not all of the commodities in which the City deals are capable of such a standardisation as shall enable dealings in the mere title deeds, as distinguished from the handling of the commodities themselves. But even where physical inspection is the necessary concomitant of a purchase (as in so many of the commodities with which Mark Lane deals), the qualities are "graded," so as to afford the maximum facility for ready transfer. Every year sees the adoption of some new process designed to encourage the easier and more rapid running of the vast machine.

The Un-eliminated Factor.

When we have done all that accumulated experience and contemporary ingenuity can suggest, however, there still remains the ever-present potentiality of the intervention of some factor against which no human prescience can wholly provide. There is always a risk of the machine "going wrong": not to such an extent as to bring it to a standstill, which must precipitate social chaos; nor yet so seriously as to throw it temporarily out of gear, which would be crisis. The latter contingency occasionally occurs, and for a time suspends the City over a financial abyss.

The economic history of the nineteenth century tells us of one crisis after another, and can, to some extent, explain the causes which produced them. But it would be impossible (at all events with our present equipment for the task) to bring these recurring troubles within any generalisation which should enable us to estimate, in reasonable accuracy, their probable date and intensity. The smaller class of City contingency, however, which is of daily occurrence, admits of reduction within the scope of a law of average, and in that way becomes susceptible of anticipation and provision by the process known as insurance. This is a class of City business collateral with and ancillary to all the others, which is so closely allied to those already discussed as to demand its introduction into the present survey at this point. We have already seen that all through the varied and multitudinous activities of the banks, the trust companies, the great financial houses, the Stock Exchanges, and the allied markets there runs an incessant effort to minimise, and, if possible, to altogether exclude the element of risk. This effort is the inspiration of the banker's scrutiny of the "paper" or the security which is offered to him, just as it is of the jobber's widening of the "turn" as the market in a given stock becomes more difficult. In some cases (for instance, a loan on Consols to the extent of 60 per cent. of their face value) the risk is practically non-existent. In others (for instance, the acquisition by a trust company of a large block of the debentures of a foreign railway) the risk has been measured, and the terms of acquisition (*e.g.*, £100 bonds at 90), include an allowance for it. In a third class of cases

the risk is of such a character as to suggest that special provision be made for it, and a special fund created against its contingencies. Where the risky operations are continuous, and are on a sufficiently large scale, the fund may be created by annually setting aside a certain proportion of the profits, as is done by a shipping company which creates its own insurance fund in this way. The objection is that in its early stages the fund is practically non-existent, and certainly inadequate to meet a sudden and extensive strain. Moreover, this mode of operation is not available to the broker who desires to insure the safe transit of bearer bonds, nor yet to the trader whose entire capital is represented for the moment by a heavy stock of commodities. Still less is it within the reach of a man whose domestic responsibilities are only capable of discharge by means of the fruit of his own exertions, and who consequently has no fund by means of which, in the event of his premature death, his wife and children may be protected. To meet all these needs for the creation of an immediately available provision against an uncertain event, whether it arise from dishonesty (fidelity and burglary insurance), ocean risks (marine insurance), death (life and live stock insurance), fire (fire insurance), the violence of nature (hailstorm insurance), accident (railway passengers' and plate glass insurance), business instability (bad debt insurance)—to meet these needs for protection a multitude of insurance companies have been called into being. They are prepared to estimate, and to incur, every risk to which humanity is subject, provided that the consequences of its incidence are estimable in sterling.

To such an extent has this system now been developed that a young married couple may, in return for a trifling payment, be assured of the receipt of £200 in the event of so disconcerting a domestic episode as the birth of twins. To attempt an analysis, much less a detailed description, of all the many forms of insurance, and of the principle of average which lies at their basis, does not fall within the scheme of the present essay. But it seems desirable to call the observer's attention, in passing, to the magnitude of the insurance system, and to its importance as facilitating in so many ways, and to so great a degree, the smooth and safe running of the City mechanism.

CHAPTER III.

OBSERVATION AND RECORD—THE PURPOSE AND SIGNIFICANCE OF THE "CITY ARTICLE"—OTHER MODES OF RECORD.

We saw that the scope and potency of the City mechanism were such that a pause, or a breakdown, would plunge half the civilised world into social chaos. The catastrophe is avoided and prevented by the incessant activity of the banks, trusts, and finance houses in providing constant new supplies of motive power for the vast machine. And the operation of the machine itself becomes daily—I had almost said hourly—more complex, because rivalry and ingenuity continually discover new *media* for their activity, which in turn involve readjustments and extensions of the existing means for managing and facilitating these innumerable processes. The main facility, as we observed, was the provision of a widely extended market, offering the means for the easy and rapid *transfer* of all the classes of securities known to its dealers: so that, on the one hand, the banker shall be willing to lend credit upon that which he can at need convert instantly into money, and so that, on the other, the investor may not be deterred from financing fresh enterprise by the fear that his funds will be "locked up" for an indeterminate period. These two terms—credit and transfer—are

the key-words of all the City mysteries so far discussed in the present treatise. "Credit" is the driving power of the machine. "Transfer" is the essential condition of marketability, without which the commodities produced by the machine would enjoy but the most limited vogue, and be produced in only the most insignificant quantities.

The Necessity for "Record."

But clearly the huge expansion of the volume of credit accompanied, as we have seen it to be, by the development of the nation-market, and the appearance (in the distance, at all events) of the world-market, creates the need for another factor of the mechanism, as well as for another key-word to characterise it. No single human eye can range over all the myriad market movements, nor any single human brain contain their history, even for a single hour. Yet history there must be. As I have pointed out in my "Essentials of Self Government" (p. 73), there is, perhaps, no science in which the state of things at a given moment, however accurately delineated, is of less value than in economics, unless it be accompanied by a knowledge of the earlier conditions out of which that state of things has developed. To be informed that the population of a given country consists of 10,000,000 is of little value to the student of economics, unless he is provided with corresponding figures relating to earlier dates in the case of the country immediately concerned, so that he may form estimates of its progress or retrogression, as the case may be. These principles are applicable, in the most

striking and complete manner, to the mechanism of the City. The fact of the interdependence of the markets, of the unceasing influence of the innumerable factors one upon the other (often in ways that are most subtle and obscure) has already engaged our passing attention. The market cannot exist in unity and consistency unless some more or less exact knowledge of the influences which are operative at a given moment be spread over the whole wide area of business. So, again, the result of these influences is seen in a thousand fluctuations hour by hour—nay, minute by minute—in the commodities which engage contemporary market attention. The changes must be made known with the maximum of speed and accuracy over the whole of the seething arena. Finally, since not all the interested parties will possess the knowledge or the capacity rightly to appreciate the significance of what is going on, there arises the necessity for guidance, in the shape of comment, criticism, and forecast. The whole of this process of writing contemporary financial history I propose to co-ordinate with "credit" and with "transfer" by means of a third key-word "record"; and I propose to describe how the record is kept, and for what purpose and with what results.

The "record," then, we shall find focussed in the City article. I say focussed, because the City article itself is but a *précis* of the actual record, which extends, for instance, to the daily issue of the "Official List" with its thousands of prices, or to the equally frequent appearance of the great financial newspapers, which often print seventy or eighty columns a day for many days together. A daily financial newspaper is, in

truth, a kind of expanded City article. The political dailies, for instance, will present in their City article only thirty or forty lines of record, comment, and criticism with regard to the daily business of the mining market. The financial dailies will expand this to four or five columns—or, if we include the extensive mining intelligence which they publish, to a whole page of each issue, and sometimes to a larger space than that. Finally, beyond the "record," the work of hundreds of vigilant observers, which goes down to posterity in the files of the great newspapers and of the "Official List," there are the brokers' printed communications to their own clients and to the banks and finance houses, as well as the circulars, often extremely valuable, which are issued by the leading outside brokers. If an attempt were made to catalogue the printed matter which forms the record of one day's business on the Stock Exchange alone (leaving other factors of the City mechanism out of the survey) the result would come as something very like a shock to those who have no practical knowledge of the huge and multitudinous forces whose far-flung activities can be but briefly and succinctly sketched in a daily City article.

Three Types of City Article.

There are really three well-defined types of City article. There is, in the first place, the type well represented by the City articles of the *Times* and the *Daily Telegraph*, in which the principal and most significant movements of the day are skilfully woven into a connected story of about a column in length

constituting a succinct survey of the market session with which it is concerned. Comment is included, but not to any great extent, the main purpose of the article being to weave into connected narrative the price variations of the day. The second type is well represented by the City column of the *Morning Post*, which since the days of Mr. Duguid's control of the City office has consisted of a series of bright notes, with cross-heads, dealing not with the whole record of the day's business, but with its outstanding features. Occasionally a paragraph will carry, as its main head, a title which only applies to part of the matter, the remainder being occupied with cognate topics. "Heavy fall in rubber shares," for instance, is a head-line which may "carry" not only the record of that fact and of the allied phenomena in the rubber section, but also a brief discussion of the outlook in the entire miscellaneous (or, as it is more usually called, the "industrial") market. This type of stock market article with its conspicuous cross-heads necessarily gives more scope to the sensational tendency than does the more subdued, conservative style of the *Daily Telegraph*. A combination of both these methods may be seen in the City page of the *Daily Mail*, where the principal market movements are recorded, with brief criticism, in a City article of the first type, while upstanding topics of current and predominant interest are treated in a column of notes which really amounts almost to a City article of the second type. Finally, the third type is represented by the departmental City articles of the great financial dailies, where the topics which form the subject of a single paragraph in City articles of the

other types, are discussed in such detail as to make each separate subject yield a City article by itself. In this way the money market—that is to say, the price of money (*i.e.*, credit) and the ruling conditions with reference to its supply—make the basis of an article, sometimes of considerable length, in place of a paragraph; and the mining market, instead of being discussed in a twenty or thirty line summary, fills half a page or more of the newspaper and records hundreds of price movements, together with the reasons which influenced them.

The method of compilation is, however, in all cases essentially the same. The compilers depend upon two main, sources of inspiration—market prices, and market and non-market gossip. It may appear a bold thing to throw into only two classes all the multitudinous and varied sources of the City article. The attempt is made in pursuance of the scheme of clear and sharp division of all the elements of the City mechanism which it is one of the purposes of this essay to achieve. A short sketch of the daily work of a City editor will justify the endeavour to bring all his activities within the modest area of a duplex, as distinguished from a multiplex, scheme of classification; and will, at the same time, tend to "humanise" the future study of the City article on the part of those who have employed these pages as part of their introduction to its mysteries.

The City Editor at Work.

Consider the City editor commencing his day's work. He is first of all anxious to be assured, by an examination of rival City articles, that he has

"missed" nothing; in other words, he likes to feel that his own sources of information are as good as those of his rivals. His satisfaction will be more profound if he discover that they are better, and that consequently he has furnished his own patrons with an item of important intelligence which the readers of the rival columns will not have acquired. When this labour of comparative criticism has been completed (perhaps in the train) the City editor is free to turn to the letters and documents which the morning's mail has brought him. There will, in the first place, be reports, balance-sheets, notices to shareholders, and similar official announcements received directly from the companies themselves; or else, with equally direct reference to their affairs, from dissatisfied shareholders, committees of investigation, and the like sources. If these are important companies, summaries or respective announcements will be prepared, and a vigilant eye will be turned upon the securities likely to be affected by the announcement of the facts and figures. These will already have been "posted" in the Stock Exchange, and widely disseminated in the locality (if the undertaking is one of conspicuous local interest, such as Armstrong's at Newcastle) where the company's affairs are most closely studied. The net result will be that in a City article of the concise narrative form we may be told that the stock "rose 1½ on the issue of the report, which was considerably better than market anticipation." In the second type of City article there will, under such circumstances of market importance, be a special cross-head, and a fairly detailed discussion of the more prominent points. Finally, the financial

dailies will devote a column or more to a reprint of the facts and figures, and perhaps a leading article to their dissection and elucidation. In fact, if the report is one of unusual interest, or exhibits some novel or totally unexpected feature, the local correspondent of the financial newspaper will be instructed to telegraph the result of local inquiries, among persons entitled to speak with authority, on the subject of the position disclosed in the report. As an instance of the extent to which the great financial dailies "lay themselves out" in a matter of this kind, it may be mentioned that the *Financial News* on one day printed fourteen columns of official facts and figures with reference to the position of the Law Guarantee Trust and Accident Society.

The City Editor's "Auxiliaries."

Next in importance to the official documents (and to the "literature" of various kinds, issued by such bodies as committees of investigation, or the supporters of a requisition for a general meeting), come the multifarious criticisms, denunciations, and outpourings of the unofficial shareholder. The city editor of a well-known newspaper enjoys the assistance of hundreds of these amateur prompters, many of whom are among the most capable and acute critics of the passing episodes of finance. A glance at any City column of the *Morning Post* or *Standard* type will provide immediate evidence of the amount and value of the gratuitous "copy" which is received from these sources. More convincing still would be the disclosure of the fact, well known to all City

editors, that many an incisive paragraph, many a well-reasoned forecast which found its conspicuous place among the notes of the day has been extracted verbatim from the friendly letter of a "correspondent." I am not suggesting for a moment that the City editor is accustomed to appropriate the credit which would rightly attach to other men. What he does (and I speak from wide personal knowledge) is frequently, and indeed incessantly, to receive valuable hints, criticisms, and arguments, with the stipulation that nothing shall be printed which will give the slightest clue to the identity of the writer. The result is frequently to compel him to take the responsibility upon his own shoulders, not often with reluctance, and frequently with alacrity. That co-operation of this kind is not always from undistinguished sources may be gathered from the fact that some of the cleverest paragraphs in a certain City article were at one time the fruit of the learned leisure of a judge of the High Court. The truth is that there are tactics in finance just as truly as in politics. It is occasionally necessary even for a great financial house to inspire a "feeler," to send up a *ballon d'essai*. The City editor is not reluctant to act in the matter if he is conscious of the device. Frequently he is not conscious, since he may be only the innocent disseminator of opinions which were framed in Copthall Court, though sent to him from the other end of Great Britain. But whatever the source, whatever the purpose, of the innumerable hints, criticisms, suggestions and documents which fall like snow upon the City editor's table, the fact remains that this co-operation is of infinite value, as well as of so great importance

that the last post of the evening must not be left without examination, lest it contain the material for a "scoop." Perhaps it would be too much to say that the readers write their own City article. But it would be the bare truth to assert that the readers provide many of the best things that it contains.

Quotations Hour by Hour.

While we have been examining these non-market sources of information, the "tape" will have commenced its insistent tick. It is an instrument which brings the latest prices of all active securities into the office of every broker, and every City editor, who subscribes for the service. The fact of the record being on an endless strip of paper, rather less than an inch in width, gives to the whole apparatus its familiar name. From time to time, then, the City editor will pause in other labour, and run the "tape" through his fingers. As he knows by heart the approximate prices of all the active securities—all the leaders of the various market sections—he can see at a glance how business tends. A sharp fall in Consols sends a shiver through the entire investment list. A sudden rally in Rand Mines will lift the whole Kaffir section into renewed life and vigour. Here Home Rails are down, in consequence of bad traffic returns. Elsewhere Canadian Pacifics have improved, on a cable announcing important gold discoveries in British Columbia. In this latter instance the relation between cause and effect is not *primâ facie* palpable, but the reader will have no difficulty in working it out by means of a moment's reflection.

This, in truth, is what the City editor will do for himself, as long as it remains clear that no unusual factor is at work in the market. But a sudden heavy fall in Consols, or an unforeseen slump of 10 points in an industrial debenture, will point to abnormal influences, and the City editor will forthwith get his telephones to work, or despatch one of his assistants to make inquiries. The fall in Consols may be the consequence of the unexpected appearance of trouble in our relations with another great nation, or it may have its origin in rumours of the imposition of a heavier income tax. The "slump" in the industrial debentures may signalise an unforeseen default, or the discovery of enormous losses or defalcations. Whatever the cause, the magnitude of the effect evidences its abnormality, and the City editor's readers will expect full information. Prompt investigation will be all the more necessary if the subject of our study is the City editor of an evening newspaper, and the startling phenomena become apparent late in the afternoon.

Visits to "Head-quarters."

As the day wears on the City editor will visit the "street" (the Stock Exchange is, of course, closed to him) and gather up the unconsidered trifles of current gossip. These will furnish him with hints for further inquiries with regard to the day's movements, as well as with the means of writing a more chatty and thoroughly comprehensive review. After the market closes he will call at the offices of leading people who are "in the know." In that way he will obtain the latest and best opinion with regard to market

movements, tendencies, sentiment, and prospects. The known utilisation of these last-named sources of information forms the basis of the legend (often repeated to the accompaniment of those gestures which are supposed to accord most fitly with the disclosure of profound mysteries) that the City editor is, as a rule, "inspired" from some City source or another, occasionally to such an extent as practically to place his City column under the "control" of those who "inspire" him. The hypothesis has just a sufficient substratum of truth to support it in precarious equilibrium, and no more. The leading City authorities who place their skilled knowledge at the disposal of a City editor are able to exert upon him precisely the same influence as a distinguished teacher of anatomy or physiology exerts upon his students. That is to say, the students' modes of thought become more or less coloured by his ideas and theories. But if they are men of independent mind, they will yield no slavish intellectual subservience. They will accept their lecturer as guide, but not as dictator. That is precisely the intellectual attitude of the capable City editor. Of course, he is influenced by the "drift" of market sentiment; no man can altogether shake himself free from what Lord Morley of Blackburn has somewhere called the "unceasing pressure of the *status quo*." The enunciation of that fact may bring us to a cognate consideration, far too important to be passed over in silence.

"Fashion" in Investments.

No attempt at a fairly comprehensive characterisation of City activities would be even *primâ facie* adequate

if it ignored the influence of "fashion" in investments. There are "crazes" and "runs" in the commodities of the City just as truly as in the products of West-end ingenuity and inventiveness. There was a time early in their history (1894) when Chartereds were not in the fashion, and could claim no prouder market dignity than a quotation of about 22*s.* for the £1 share. Then there burst upon the City a "craze" for Chartereds, which rapidly became the "bell-wether" of the South African market. The public, which would not give them a second glance when they could be bought at 22*s.*, literally fought for them at £9. A friend of mine was dining with Mr. Rhodes in Cape Town one evening when a cable arrived with the news that Chartereds were over £9. Mr. Rhodes was very disturbed by it, so much that he got up from the table and walked about the room in his agitation, saying that of course the craze would collapse, and the quotation with it. "Then," he added, "they will blame me for their losses." That is only one instance of the working of a tendency extremely familiar to every close observer of City life, which, after all, is only a reflection of the prevailing temper of the provincial and continental investing public. At one time their fancy turns lightly to Rhodesian mines, at another to West Africans, and anon it flies to rubber or cycle shares, which reach fabulous quotations on the strength of indiscriminate, irrepressible, and insatiable buying. Suddenly there comes some suggestion of collapse, some startling item of unpleasant news, some hint that an optimistic "expert" has recanted, and all the scenery of the "boom" is instantly transferred to another stage.

In the new development it may possibly concentrate itself, with a furious and unaccountable onset, upon some single security, which rises "points" at a time under the pressure of a flood of buying orders. Facts like these give rise to the City proverb, which has it that some day or other there will be a craze for speculation in paving-stones, so that they will forthwith advance to fabulous quotations on the strength of the ephemeral fancy which leads to persistent buying orders. Perhaps that is an exaggeration, but it is at least inconsistent of the "practical" investor to smile at a sudden West-end "fad" which insists for a time upon a green stripe in almost every article of human attire, while at the same time he himself, disregarding every admonition of the laws of average and of geographical distribution, buys nothing but the shares in one class of enterprise, operating in one limited area, and buys those, moreover, at highly inflated prices.

The Newspapers and "Crazes."

The great financial newspapers, and the City editors of the political dailies, are often blamed because they seem to lend countenance to these "crazes." They give long lists of current prices, including those of obscure and unimportant companies. They print column upon column of special notes and gossip with regard to the latest market movements and rumours. They magnify into the dignity of "scare heads" and special paragraphs the most insignificant events in the popular arena of speculation or investment. In that way there is no doubt that they sometimes fan

the flame, and bring into participation a much more extensive public than was originally concerned. In particular, the "little man" appears. He can but "dabble" in tens and twenties. But when you have thousands of such "dabblers," the volume of business is enormously augmented, and market temperature tends rapidly towards fever heat. The "big houses" watch the volume of speculation very much in the same way as bankers and bill-brokers study the quantity and quality of bills in circulation. A hint thrown out by banker or bill-broker to the effect that a certain house has a trifle too much "paper" out is quite sufficient either to enforce a more prudent policy on the firm which is the subject of criticism, or else to mark out its "paper" for specially discriminative treatment. The "big houses" do not possess the same intricate and intimate knowledge of the individual operator as the bill-broker has of the firms whose "paper" comes before him. But every settlement brings before them an accurate presentment of the actual state of the speculative market, especially vivid and complete in the case of the shares with which the house is closely associated. The market in Rand Mines is as an open book to Messrs. Wernher Beit & Co.; the open position in Johannesburg Consolidated is as clear as the noonday in the offices of Barnato Brothers. If the result of the critical observation of these houses and their advisers is to indicate the existence of a "top-heavy" state of affairs—if the "weak bull brigade" is rampant in the market, "carry-over" facilities are withdrawn. The weak speculators with open commitments for the rise are warned that they must take their stock off the market.

In nine cases out of ten they are totally unable to do so. They are merely "profit-snatchers," riding on the shoulders of the stronger operators who inspire and dominate the market. That being the case, a notice to take up their stock is a notice to quit the market. It leaves them no recourse save the sale of the stock at any price which is immediately obtainable. There is consequently a sudden rush of sellers, and prices fall sharply. But the position is cleared by the elimination of the weak and beggarly elements, and, as a rule, the advance is resumed after this brief interval on the basis of a greatly improved and much more wholesome position of affairs in the speculative arena.

The "Bear" as a Check on Panic.

It might be supposed that this sudden withdrawal of "carry-over" facilities, and the resulting precipitation of large amounts of stock upon the market, would occasionally bring panic within the range of possibility. And there is no doubt that the policy of clearing out the weak "bulls" would have to be adopted with a good deal more circumspection were it not for the assured presence, in the market, of a large mass of commitments on the other side—that is to say, by the "bears." The withdrawal of "carry-over" facilities, and the consequent sharp fall in prices, gives the "bear" his chance to "cover"—that is, to buy back the stock which he had sold speculatively, on the chance, and in the hope, of buying back at a lower figure. For example, to give a bald and simple instance, the "bear" sold at 2, and the price has since advanced to $2\frac{1}{4}$; on

that position the "bear" is a loser. But a sudden and extensive precipitation of stock on the market sends the quotation back to $1\frac{3}{4}$, at which the "bear" buys back, at a gross profit of $\frac{1}{4}$ on the transaction. His buying relieves him of the risk of loss which subsisted as long as the shares were quoted above the price at which he sold, and, at the same time, it steadies the falling market by the advent of a buyer. In studying these phenomena, however, and endeavouring to estimate the character and influence of the forces which are at work in the seething arena of the City, it is very important to distinguish the inflated or a "deflated" price from the fictitious price. When Chartereds were quoted over 9, in the boom days of 1895, the price was grossly inflated, mainly by a sudden and impetuous public fancy which made them all the "rage" among speculators in the South African market. But the price was perfectly genuine for all that. You could deal freely in large lines of stock. It is quite otherwise where a price is raised or depressed to an artificial level through the market (whether as the result of normal or artificial influences) being "all one way." For instance, the quotation of many of the better class financial trusts in the "Official List" has often been that at which the jobbers would buy, though they were not sellers at all. The consequence was the maintenance of these quotations at an artificially "deflated" figure. The natural influence of buying orders was altogether excluded. In the converse case, where a "bear raid" was met by strong "inside" buying, the price of a £5 share rose to considerably over £20 because, again, the market was "all one way." The bidding for these shares, at a constantly rising

price, must inevitably have brought about the selling of the shares, if there had been any to sell. But there were none. The previous "inside" buying had cleared the market. Even the most adventurous of "bears" would not enter into new speculative commitments which he well knew could only be adjusted by his paying a price to be "let out." In other words, the quotation, though it undoubtedly represented the actually quoted price, was, from the point of view of actual business, an absolutely "fancy" figure. The test of the genuineness of a price is always the existence, or non-existence, of a free market. If you can deal either way at or about the price, it is genuine, however inflated or "deflated." But if you can only deal one way, manipulation in some form or another, active or passive, is a present factor, and the quotation is artificial.

The Newspapers and the "Booms."

The consideration of these by-products of the "craze" and the "boom" may bring us back to the share of the City editors in creating and maintaining these comet-like apparitions of the City. The truth is that in their attitude towards the "craze" and the "boom," the great financial journals, and the City editors, cannot avoid the policy which they pursue. The public expects—nay, it insists upon—being supplied with a full and even a sensational record of the latest developments in the speculative arena whither, for the moment, its errant speculative fancies have led it. The newspaper which declined to follow the public lead, to humour the public

caprice, would soon be convinced of its mistake by the falling figures of its own circulation. The utmost that a newspaper can do (if it does anything at all) is to furnish the news from the fermenting area, and at the same time to caution its readers against the dangers of the situation. Even then it runs the risk that indignant readers, who do not relish its relentless criticism of the current speculative "fad," will withdraw their support, and use their influence to persuade others to do the same. This is no idle fancy. City editors and newspaper proprietors could tell the tale of many an insidious endeavour to injure a newspaper which had dared to maintain a cautionary policy against the perils of some speculative or semi-speculative fancy in which, for the moment, the public was tempted to run wild. Fortunately the newspapers which embark on these campaigns are usually strong enough to see them through, without regard to the angry menaces which are provoked by their public-spirited persistence. But this policy needs courage for its initiation, and resources for its support. When large advertising contracts are withdrawn from a newspaper, in consequence of its unceasing efforts to keep the public from entering a dangerous arena, the remonstrances of the manager are apt to disturb the dignified quietude of the editorial chamber. When these withdrawals, which are the best testimonial to its power, and to the worthy use thereof, are trumpeted by competitors as evidences of its waning influence, the strain is hard to bear. But it has been borne, and public appreciation has returned in a flood of augmented support to the newspaper which had

simultaneously demonstrated the soundness of its views and the courage of its conductors.

Other Sources of "Record."

Apart from the City article, the observer of market phenomena will desire to have a record of prices. He will find that the sources of information are of infinite number and diversity. There is, in the first place, the official Stock Exchange record. This is published daily, under the authority of the committee of the Stock Exchange, in the case of all securities which are officially recognised and quoted in this "Official List." The "Official List" consists of carefully classified arrays of the various securities, arranged in accordance with the authority by which they are issued or the type of enterprise which they represent. "British Corporation Stocks," for instance, form one class; another is composed of commercial and industrial securities; a third of Home Railway Guaranteed and Preference Stocks. In addition to the name of the securities the "Official List" gives the amount of the stock outstanding, the period of repayment (if fixed), the date of the payment of the last dividend, and when the stock is "x.d.," as well as its latest quotation, and the "markings." The "markings" are the record of business actually done, whereas the latest quotation forms the basis of the negotiations (between broker and jobber) which would precede the completion of the transaction. To give an illustration, a client orders a purchase of Manitoba Bonds at a ruling quotation of 102½—103½. His broker reports that the transaction was effected at

103, and the client obtains *primâ facie* evidence of the broker's accuracy by seeing that price among the "markings" in the next day's "Official List" in this way. I add a few other prices, so as to make the example quite clear :—

COLONIAL AND PROVINCIAL GOVERNMENT SECURITIES.

Canada 3¾ per Cent., 1914—19: 101¼.
Manitoba 4 per Cent. Debentures, 1949: 103.
New Zealand 4 per Cent. Debentures: 101⅜.
Newfoundland 3 per Cent. Stg. Bonds: 81½.
Quebec (Prov.) 4 per Cent., 1934: 101.
Queensland 4 per Cent., 1913—15: 101⅞.‡

It will be noticed that one of these "markings" is distinguished by a mark ‡, which signifies that the designated transaction consisted of an "exceptional amount at special price." This indicates the abnormal character of the "deal" at the special quotation, so as to anticipate the objection by the principals in the other transactions, that this price is more advantageous than their own. The great majority of the stocks in the "Official List" will, on a given day, exhibit no "markings." Others will exhibit a great number, so that occasionally the typographical skill of the printer will be strained to place all the figures in reasonable propinquity to the title of the stock. A heavy day in brewery stocks will be reflected in the "markings" of that section of the "Official List." In this way the array of "markings" becomes the index of business conditions, so that if they are thickly concentrated in a particular section of the list, we may safely infer a

corresponding concentration of attention and activity in the securities which the section represents. The inference is, in truth, so sound that to very many of those upon whom there rests the heaviest burden and responsibility for the safety and conduct of the vast financial interests, a study of the contemporary "markings" is the single essential of their equipment for their gigantic task. Some of the newspapers (the *Times*, the *Financial News*, and the *Financial Times* in London, and the *Manchester Guardian* in the provinces, for instance) print *in extenso* daily all the "markings" under the heading of "business done," and in that way present a kind of Stock Exchange microcosm, a condensed "Official List," which is to the seeing and perceiving eye an all-sufficient guide through the intricacies of current financial developments. The *Financier* reprints the whole "Official List" daily.

The "Official List" not a Complete Record.

But even the "Official List" is not a complete record. It is concerned only with a limited number of securities (those which are officially quoted), and its figures refer only to the limited time during which the "House" is open. Long after the "House" is closed an active and excited throng lingers in the "street" (Throgmorton Street). In times of exceptional activity "street" business, to the accompaniment of a roar of vociferation, goes on until nearly eight o'clock, so that the prices printed in the "Official List" (which are those prevailing at 3.30) may be very far indeed from those which are ruling when business

finally comes to a close for the day. These later prices appear in the City column, unless the quotations given are professedly those of the "Official List." The City article prices of the leading mining shares are, almost without exception, "street" prices, not "House" quotations. The same affirmation may be made of the prices of the principal counters in the Yankee market. Yankees (American railroad stocks) are, however, subject to the influence of Wall Street, which is in official session (and consequently in active communication with London) for some hours after our Stock Exchange is officially closed. The "street" dealings, then, modify the "Official List" prices by means of active transactions after hours. They also extend to many stocks of which the "Official List" has no cognisance.

"Unquoted" Securities.

This last allusion brings us to the consideration of the vast aggregate of securities which are not quoted, and many of which are never likely to be quoted, in the "Official List." It would be impossible to present anything like an exhaustive classification of their innumerable varieties. A rehearsal of the shortcomings of a few of them, from the point of view of the compilers of the "Official List," may, however, enable a firm grip of the facts to be obtained. The Stock Exchange will not, save in exceptional circumstances, grant an official quotation to the shares of a company with a smaller capital than £50,000. There are myriads of such companies. At the moment (1910), for instance, there are something like two hundred skating rink enterprises, with

capitals of less than £20,000, and all of them consequently debarred from the privilege of official quotation. Yet dealings in securities of these comparatively small companies may be frequent, because their shares are in some instances a very desirable holding. It follows that many of them are quoted in the daily newspapers, and in brokers' lists; and that where there are many shares of a particular class—*e.g.*, the rink shares already mentioned—an enterprising broker here and there will constitute himself the market in them. If he is an "outside" broker (and therefore free from the disciplinary regulations of the Stock Exchange Committee) he will send out circulars by the thousand, offering to buy or to sell. As he is the only man who will "deal," he reaps no small advantage from his enterprise. At the same time he runs an obvious risk that a change in the wayward fancy of the public may leave him with many of the shares on his hands. With public inquiry in this way stimulated, it will be clear that this whole class of unquoted securities demands the occasional notice of the City editor. If public interest in some of them should grow to respectable dimensions, he must quote them in his lists, in spite of their lack of Stock Exchange status. These shares form, in truth, the bulk of those quoted by the great financial dailies, which make a special effort to render their varied lists as inclusive as possible, since every addition to the list widens the *clientèle* of the newspaper in which it appears. There is no more eager buyer of a newspaper than the investor who holds shares which are quoted in its columns, and nowhere else.

Another class consists of shares of companies where the "control" is in the hands of one or more individuals, in consequence of their holding a majority of the shares. The Stock Exchange Committee requires, as one of the conditions of an official quotation, that at least two-thirds of the shares which are to be quoted shall have been applied for and unconditionally allotted to the public. Again, there is a class of unquoted shares made up of those which have been recently issued, and have not "settled." The dealings may quite possibly be on a very large scale (as were those in Lipton's shares), though the Stock Exchange has no official cognisance of them. But the public will want the latest price, and the City editor must obtain it. Once again, there is a continuous undercurrent of transactions in the shares of a class of utterly obscure concerns, most of them quite local in scope, of which the small and secretive investor is particularly enamoured. He can keep his individuality as the holder of 10 shares out of 1,000. He loses it when his 10 shares are but a minute factor of a million, or when he is but one of 70,000 shareholders. Moreover, as the holder of 10 shares out of a total of 1,000, he can visit the scene of the company's modest operations, and pose as a person of some importance; whereas the officials of a giant enterprise, while they did not dispute the fact of his modest proprietorship, might treat him only with a kind of amused tolerance. When the psychology of investment comes to be treated in detail, the small investor in the small company will be a fruitful source of suggestion.

The Foreign Markets.

We have now outlined the circumstances which create two clearly distinguishable classes of quotations—(1) those which are official, and (2) those which are not. Both these classes, however, find their origin in the markets of the United Kingdom. But the City editor's task will not be complete until he has brought within his survey a very numerous group of quotations, which have their origin in various foreign markets. The London market in American railways and the allied securities does not synchronise with Wall Street, because New York time is five hours behind Greenwich. Hence the public will desire to know the closing prices in Wall Street. These will be supplied by means of special New York cables. Once more the closing quotations on the Paris and Berlin Bourses are of vital importance. Such stocks as Rand Mines and Rio Tintos are international as between London and Paris, and even Spanish, in which Paris takes a peculiarly intimate interest, has something of a London following. In recent years—the phenomenon is worth allusion because it offers a contemporary instance of an extension of the frontier of the international market, in the direction of the world-market—Amsterdam has obtained a potent influence, particularly in "Yankees," and in rubber and tobacco stocks. Amsterdam has more than once been in the position of controlling some of its American specialities, so extensive had its holdings become. The last development of this process of internationalisation, as applied to the great Dutch market, has been the introduction of Great Eastern stock, for

purposes which the reader who has followed me thus far will readily surmise.

A Typical City Article Analysed.

All these multitudinous sources of information have to be scrutinised and focussed, together with the ruling prices in the various sections of the market, before the City editor is ready to commence his careful digest of the day's movements. At this stage of the inquiry, therefore, we may with advantage take a typical example of an actual City article of the first type, and subject it to analysis in accordance with the principles which have been enunciated above. The *Times* City article of February 11th, 1910, commences with the money (*i.e.*, the credit) market, and carries the conspicuous head-line "Three per cent." That is to say, the City editor begins, as we began, with the question of the available supply of credit. He finds it *primâ facie* abundant, since it can be had at 3 per cent. When we come to peruse the introductory paragraph, we find our inference correct, and we have given to us a plain, lucid reason why. Thus:—

"THE MONEY MARKET.

"THREE PER CENT.

"The Directors of the Bank of England to-day reduced the official *minimum* rate of discount from 3½ to 3 per cent. The Committee of Clearing Bankers fixed the rate for deposits in the City and County of London at 1½ per cent., and the discount houses also reduced their allowances to depositors by ½ per cent. The movement had been fully expected and had little effect on market quotations. In spite of the requirements of the Stock Exchange pay day, and the dislocation due to the maturing and renewal of £3,000,000 Treasury Bills, money remained extremely

abundant, and several of the banks arranged weekly fixtures at 1½ per cent. Discount rates consequently continued their decline, and in the afternoon some brokers quoted 2⅛ per cent. for fine bills of all dates, though 2 3/16 per cent. was the more usual quotation. Continental bills were noticeably more plentiful, and there was a general adverse movement in the exchanges. The expected reduction in the German Bank rate was duly announced. Bullion brokers reported indications of a French demand for the Cape gold due on Saturday.

"BANK RATE, 3% (February 10). A year ago 3 per cent.

"DEPOSIT RATES.—Bankers', 1½ per cent.; discount houses', 1½ per cent. at call, 1¾ per cent. notice.

Loans (per Cent.).		Discount (Bank Bills) (per Cent.).			
Day to day.	For short periods.	2 months.	3 months.	4 months.	6 months.
1¼—1½	1½—1¾	2 3/16	2 3/16	2 3/16	2 3/16

Discount (Fine Trade Bills) (per Cent.).

3 months	4 months	6 months
3—3¹	3½—3¾	3½—3¾ "

So clear a statement hardly stands in need of elucidation. But let us, nevertheless, glance rapidly over it. The Bank directors (the reference is, of course, to the Bank of England) found credit in abundant supply. They apprehended no drain on their resources of actual bullion, nor yet any event which might tighten credit by generating mistrust. Therefore they reduced the Bank rate: in other words, they intimated that they would, for the present, sell credit at a rate of ½ per cent. cheaper than they had previously done. The other banks must, consequently, reduce their terms if they are to keep their customers.

But if they are lending credit more cheaply, they must borrow it more cheaply also. Hence their agreement that they will only pay 1½ per cent. to the persons (depositors) who desire to leave credit in their hands to fructify. Then we are told that the fall in the Bank rate did not affect prices. It had been "discounted" in advance in accordance with the market habit, which we noticed in its place. Finally, we are given details of the prices at work in the credit market, ending with a hint that there are already French inquiries on foot for the Cape gold which will arrive on Saturday. A tabular statement of ruling prices for credit gives a bird's-eye view of the entire market for that commodity, in three sections: (1) the price payable for the use of credit which is liable to be "called in" practically at any moment; (2) the price to be paid for the use of credit where the security consists of bills with a bank indorsement, that is to say, absolutely sound; and (3) the corresponding price for credit where the security consists of fine trade bills—in other words, bills with the indorsement of leading commercial houses, representing actual business transactions in course of completion, as distinguished from mere accommodation bills.

The World's Credit Stock.

Following upon these statistics (February 11th being a Friday), comes a copy of the Bank return, issued every Thursday. It need not be reprinted here, since it can be seen in every Friday's money article. It relates to the "credit" department of the City mechanism. It exhibits all the resources available,

at the central store of gold, to meet the demand for the transformation of credit into bullion, if the call should arise. Next to this, and very aptly in that position, are the figures of the Clearing House :—

"CLEARING HOUSE FIGURES.

"For the week ended February 9 :—
£241,473,000—increase, £7,477,000.
"For the year to date :—
£1,605,489,000—increase, £92,416,000.*
"* One day less this year."

These figures, once more, refer to the "credit" element. They show how much credit passed through the Clearing House in a given period, and they compare it with the volume of the same commodity during the corresponding period of the previous year. The succeeding items are the "returns" of the Bank of France, the Austro-Hungarian Bank, and the Bank of Bengal, together with a notification that the Imperial Bank of Germany has reduced its discount rate. The relation of these facts and figures is to "credit" and to "market." They exhibit, in the first place, the resources available, in other great financial centres, to meet the call for bullion in exchange for credit, if it arise. They demonstrate, in the second place, by the mention of these facts and figures being incorporated in a London City article, how closely the interests of the world-market are interwoven, so that the materials for forming a judgment on the state of the London credit supply need to be reinforced by a knowledge of the corresponding conditions in the great Continental centres, and even in Bengal. Conjoined to these details comes the report

of the bullion market—that is to say, of the state of the supply of the one commodity into which credit may be transformed with complete satisfaction to all parties. Finally, the review of the money ("credit") position terminates with a survey of the ruling conditions in the foreign exchange markets, that is to say, of the terms upon which credit in one country may be made available to meet the demand for its use in another. An Italian railway, buying a locomotive from English makers, will not remit bullion to pay for it. The railway has credit with its Italian bankers, and these in turn have credit with a London agent. The railway will order a part of its Italian credit to be transferred, *viâ* the London agent, to the makers of the locomotive. But inasmuch as Italian currency is not expressed in the same media as English, it will be necessary to transform the *lire* of Italy into the pounds sterling of England. It will be necessary, that is to say, to ascertain what number of Italian *lire*, standing to the credit of the railway in the books of an Italtan bank, will form the exact equivalent of the number of English pounds sterling which it is desired to transfer from the credit-store of the railway to that of the locomotive makers. To ascertain what this equivalent is, and to comprehend how and why it varies, within certain well-defined limits, and what those limits are, and how created and maintained—all this is the science of the foreign exchanges.

The Stock Markets.

The next step brings us to the Stock market review. For purposes of brief analysis, we may take the first

paragraph. The reader may then, without difficulty, apply the principles of inference and interpretation, already laid down, to the money article of any and every day:

"THE STOCK EXCHANGE.

"FIRM AND FAIRLY ACTIVE.

"Markets opened cheerfully on the further recovery in American shares, and were further stimulated by the realisation of hopes of a reduction in Bank rate. There was a very fair amount of business, most of it sound investment buying, though speculation was also rather more active. Pandemonium continued to reign in the Rubber Market, where the large number of companies with small capitals makes dealing a difficult and uncomfortable matter, attended with all the risks of a Rugby scrummage. Buying becomes daily more general and persistent, but a moderate amount of profit-taking at the close gave the market time to take breath. Elsewhere the tone was more sedately firm, the advance being led by American securities, which were well supported by investment buying, but finally became flabby in the street, where Wall-street selling orders prevailed. Foreign securities were quiet and very steady, and the Grand Trunk Railway Market showed a good deal of activity, forecasting the declaration to-morrow of the full dividend on the Second Preference stock. A poor Mexican traffic depressed the company's stocks, and South American railway securities were a laggard market, a fresh issue of 2½ millions Central Argentine Debenture stock being announced at to-day's meeting. The South African Market was rather more lively, the labour position shown in the monthly return being satisfactory, while the Consolidated Gold Fields' interim dividend was well received. Cheap money is having its usual effect in quickening the demand for securities of all kinds, and the technical position of most markets seems to be in favour of improving prices as far as it can be gauged in these days."

The sub-head and the first sentence strike the key-note of the day's business. Markets were firm

and fairly active. Then follow the predominant influences which produced this happy state of things —Yankees recovered, and there was a realisation of the market hope that the Bank rate would go down. Falling back upon our key-word, we infer that the "credit" producing section of the great mechanism was working to better effect, while the "transfer" or "market" element was more inclined to activity and cheerfulness. In other words, people were more inclined to deal. The same phenomena are observable in homelier markets, and it only needs an intelligent appreciation of the fact to lift the veil of mystery from the City article, and exhibit Stock Exchange activities as perfectly normal manifestations of the human instinct to "chaffer." As a rule, people feel more cheerful as Christmas approaches. They show their cheerfulness by the liberal purchase of commodities for consumption and presentation; and the markets represented by the grocers' and the bakers' shops at once become "firm and fairly active." As the festive day comes into immediate proximity, the provision markets exhibit all the characteristics of boom. The shops are besieged. People pay "fancy" prices for plump turkeys. They even become affected by what political psychologists have called "mass-suggestibility," so that they buy things which they do not require, and even bid against each other for them, in the frenzy of excitement. The next sentence of the City article shows us precisely the same forces operative in the Stock market. In the Rubber Share department, we are told, "Pandemonium continued to reign." The reason was that rubber shares had become, for the moment, a fashion,

a craze, with the inevitable consequence of setting mass-suggestibility in violent operation, and precipitating a boom. Whether he deals in stocks and shares, in Christmas fare, or in New Year's gifts, man is the same creature. The Stock Exchange, like the West-end tradesman, is well aware that the public spends its money much more freely in fine weather than in wet. The spring sunshine is a recognised market influence.

The "Detail" of the City Article.

Following the article a little further, we see that American Rails were at first well supported, but became flabby in the "street." The reference is, of course, to the assemblage of dealers in the "street" after the close of the "House." As New York time is five hours later than London, Wall Street is in official session long after the London Stock Exchange has closed. In fact, official Wall Street synchronises with unofficial Throgmorton Street. Beyond steadiness, the foreign market showed no feature. But the next sentence provides an instance of the "discounting" habit of the Stock Exchange, which invariably endeavours (partly in self-defence) to forecast the various market contingencies, and to adjust prices, as far as possible, before the event. In the present case it is the expected declaration of the full dividend on Trunk Second Preference which is the inspiration of activity in that section. Conversely, a poor traffic depressed Mexican Rails, and South American Rails were under the shadow of a large new issue by the Central Argentine. Why should this exercise an

adverse influence? It would be possible to offer many replies to the question; one is, that a certain section of the investing public devotes its attention to South American Rails. They are its "fancy"; so truly, that the City houses which make a speciality of the despatch of prospectuses will have South American railway investors in a separate classified list, so that the particulars of a new issue of their "fancy" may be circulated among them alone. These investors will, in the absence of a new issue, support the market by means of a steady stream of buying orders. But the Central Argentine debentures, which have "upset" the South American railway department, will divert £2,500,000 of this money into another channel, with the result that buying orders will slacken. Cause and effect are fairly plain here, when once the workings are laid bare to the observer. Less obvious, perhaps, but possibly as sound, is the inference that the market does not relish so large an increase of the prior charges as will be involved in the issue of £2,500,000 of debentures. The interest on them, and that of the other senior stocks, must be provided before the ordinary stock participates in the year's profits. The larger the prior charges, the greater must be the profit which will be required to pay a substantial dividend on the ordinary stock. But even if this latter hypothesis be sound, why should any stocks but those of the Central Argentine Railway itself be affected? The reply is that the others were dull in "sympathy." Why they should be, is one of the problems of City psychology.

The ensuing sentence sketches, in a few words, the sources of happiness and activity in the Kaffir

market. Cheerful news begot a cheerful sentiment, and people bought more freely under the influence of their optimism. Finally, there was another general influence at work in cheap money (credit). When money (credit) can be had on easy terms, the speculator is encouraged to borrow it and employ it in market operations. The investor also, seeing that the 3 or 4 per cent., which he was getting on his deposit account, has now fallen to an exiguous 1 or 1½ per cent., asks himself if the time has not come to obtain a better return by the purchase of a permanent investment. Once more, ordinary commercial business becomes more active under the stimulus of easier financial conditions, with the result that profits are made in this field also; and these, in turn, seek investment, and add to the existing stimuli of cheerfulness.

The Departmental Survey.

After the general introduction, which we have examined, the City article proceeds to a brief separate survey and characterisation of the state of things in the leading departments of the market. Home railways receive distinct treatment in this way, and so do foreign stocks and mines. Very rarely indeed, in the case of a City article of this first type, will a special paragraph, after the article itself, be devoted to some prominent feature of the day's news. No City event which is not distinguished by the utmost gravity and importance will be honoured in this way. But it is otherwise with the City article of the second type, such as that of the *Morning Post*. The outstanding

market features will be separately and specially described, as well as criticised, in a series of about a dozen paragraphs, each with an appropriate "cross-head." The quotation of two paragraphs from the *Morning Post* of February 16th, 1910, will enable us to scrutinise this mode of treatment rather more closely:—

"CHARTEREDS ACTIVE.

"Rhodesians provided the most active section of the South African Mining Markets. Chartereds were a strong and rising market in anticipation of the annual report, which is expected almost immediately, and will, it is stated, show a balance over expenditure of £50,000. The shares advanced to $1\frac{3}{16}$-$1\frac{7}{8}$, and the options went up to 36*s.* 6*d.* Tanganyikas and Zambesias also gained ground, and among Gold Shares the most striking incident was a quick run up in Surprise on the latest news from the mine published yesterday. The opening price was 19*s.*, and in the Street it reached 25*s.* 6*d.* Willoughbys came in for support and put on nearly 2*s.* Globes jumped $\frac{3}{16}$, and Enterprise, Giants, and the Banket Group showed small gains. Kaffirs displayed very little life, and there were few movements of importance at the finish. Modders recovered $\frac{3}{16}$ to $13\frac{1}{4}$, but Ferreiras dipped $\frac{1}{4}$, and Wit Deep were marked back $\frac{1}{8}$. Jagers were strong in the Diamond division, ending $\frac{1}{4}$ to the good, and De Beers, after touching $19\frac{1}{2}$, finished $\frac{1}{16}$ up at $19\frac{3}{8}$, but Premiers were rather dull. Broken Hills remained heavy, but West Australians ended better here and there, and Waihi Grand Junctions advanced $\frac{1}{16}$. Lack of business produced lower prices in the West African section, and Gold Coast Amalgamated went back to 5, a drop of $\frac{3}{16}$. Ashanti Goldfields, Taquahs, and Nigeria Bitumen all fell $\frac{1}{16}$, and sundry others lost a few pence. Copper Shares moved narrowly, and in the Miscellaneous divisions Mexico of El Oros and Pekins improved. Lena Goldfields touched $2\frac{3}{4}$ and finished at $2\frac{5}{8}$-$2\frac{11}{16}$.

"SMALL CANADIAN ISSUE.

"The Bank of Montreal, on behalf of the purchaser, offers for subscription an issue of £123,200 $4\frac{1}{2}$ per Cent. City of Montreal

(Town of St. Louis) Bonds of £100 each. The town having been annexed to the city of Montreal the bonds are an obligation and rank equally with the other general debt of that city. The issue price is 109 per cent., and allowing for redemption the bonds afford a yield of slightly over 4 per cent. Montreal can offer ample security, and the bonds are a fair purchase."

These two paragraphs are quite typical. The first exhibits a cross-head which has an immediate applicability only to the first seven lines. After discussing Chartereds up to that point, the writer veers off to Rhodesians generally, of which Chartereds are, admittedly, the leader. Thence, by an easy and natural transition (since the markets are closely allied, and generally move in unison), he passes to a review of Kaffirs. Finally, he touches lightly upon the main features of the mining market generally, so that a paragraph which the reader might suppose, judging from its headline, to be concerned entirely with Chartereds, is ultimately found to include allusions to Mexican, West African, Chinese, and Siberian mining shares. Quite possibly the whole paragraph might have been devoted exclusively to Chartereds, if the issue of a sensational report had led to violent movements in the price. As it was, Chartereds could do no more than furnish the cross-head of a paragraph which, on examination, resolves itself into a succinct review of the prominent features of the whole market, in which Chartereds are but a single, though of course a dominant, factor.

The other paragraph is equally characteristic, alike of the second type of City article and of the style of the so-called "new" financial journalism which the younger City editors have brought into vogue. It

consists of a concise summary of the facts of an issue of bonds by the City of Montreal. The older financial journalism would have gone no further. The exponents of the new art proceed, as in the paragraph before us, to the expression of an opinion upon the merits of the security. In this instance the opinion that these bonds are a "fair purchase" is conservative to the last degree. Outside the ranks of the absolutely gilt-edged securities of the world, there can hardly be a better bond than one which has the credit of the commercial capital of Canada behind it.

The Record not Scientifically Adequate.

This day-to-day record, however, despite all the labour and skill that are bestowed upon the compilation and maintenance, lacks one essential element of scientific completeness. It does not provide for the contemplation of the fluctuations, with all the concurrent influences, in a more distant perspective than is offered by the survey of a day's transactions from so near a standpoint as the next morning's City article. The City, like the globe, may be said to have three separate movements, of which the least important has the greatest degree of prominence. The globe has its diurnal motion upon its own axis, producing the phenomena of day and night, and forcing their succession incessantly upon our attention. Less prominent is the annual motion round the sun, which is responsible for the ordered sequence of the seasons. Less prominent still, and to the great majority of mankind unknown, is the movement of our sun and

all his attendant system towards a point in the constellation Hercules. These three movements, daily, annual, and secular, have their counterpart in the phenomena of finance. There is the daily fluctuation of prices, persistently forced upon our notice by the tick of the "tape" and the City article upon our breakfast table; there is the annual recurrence of similar market conditions—the spring abundance of credit, the August lassitude, the "autumnal drain," regularly brought within the scope of our contemplation as the seasons roll on their eternal path; and there is, finally, and most significant of all, that gigantic secular movement which carries us out of a household economy into imperial consciousness and unity, and exhibits such colossal contrasts as that between the value of gold in the fifteenth and the twentieth centuries.

The City editor can only deal with the day to day fluctuations, which are the least significant of the triplex phenomena. To the annual recurrence of the seasonal influences he will from time to time allude. But of the secular movements, which mark the conquests of humanity over its environment, and thrust forward the frontiers of civilisation further into the unknown, he says, and can say, nothing. The description and characterisation of these gigantic influences do not, and cannot, enter into his cognisance. Yet it is profoundly true that distance, collocation, comparison and inference are all indispensable for the scientific study of market influences and movements. Whether there are financial cycles; if so, what is their period, and what the forces which determine its length and provide for a recurrence of

the phenomena; whether the influences are entirely intrinsic to this planet, or whether, as Jevons thought, the sun-spots exert a power of indeterminate nature, and of only roughly measurable extent—all these questions must be attacked and solved, if they are to be solved at all, by a study of the varying aspects of the City mechanism over lengthened spaces of time.

Materials for the Wider Survey.

The means of this wider survey are being rapidly accumulated. They are to be found, for instance, in the lengthening array of the files of the *Economist* and the *Statist*, which offer not only the material for the investigation of market movements and prices over long periods of time, but also a periodical characterisation of contemporary financial events and tendencies which, being written weekly and not daily, does not embarrass the investigator with the multitudinous detail of ephemeral movements. There are also many weekly newspapers which devote themselves to special markets (such as mining) and supply not only an adequate review of price-movements and business tendencies, but also a summary of the events which are external to the special market, though they exert an influence upon it. Finally, the importance of precise knowledge with reference to price-movements over lengthened periods of time has given us the many "highest and lowest" manuals. In these the critical observer is furnished with the highest and lowest quotations of the various stocks over lengthy periods of time, as well as with the exact month and

day which saw the maximum and minimum respectively attained in any given year. This enables a comparative study to be made of the onset and influence of such economic forces as can be discerned in cyclic movement, as well as of the widespread effect of such a unique phenomenon as the prolonged cheapness of money which "lifted" Consols to 114 and carried all the gilt-edged stocks upwards with them. In comparison with the scanty materials of minute economic investigation which earlier ages have left us, our own offers a prolific store, as well as an ever-increasing fecundity of statistical resources, providing the maximum of information in exchange for the minimum of research. The capacity of this vast thesaurus of accumulating economic experience as an indispensable factor of successful social diagnosis and therapeutics is now beginning to be clearly realised by intelligent observers in all classes of the community.

CHAPTER IV.

RESULTS, DEVELOPMENTS, AND TENDENCIES — THE DEMOCRATISATION OF INVESTMENT AND SPECULATION.

The creation of an interest in the stock markets and of an actual participation in financial operation (whether for investment or speculation) on the part of a very large section of the non-financial public is an event which has occurred not only within living memory, but within the limits of the business life of men who are still in their prime. There is practically no sign of this interest, this participation, down to the end of what we call the mid-Victorian period. If we read some of the literature descriptive of the typical English life of that age, we shall find that superfluous money, which nowadays find its way into the stock market, was then put "out at interest," generally on mortgage. The kind of ambition which now finds satisfaction in the boast of being a "large holder of Chartereds," or of having "done well in Trunks," was then well satisfied to contemplate a building or a plot of freehold land, upon which the observer held a well-secured first mortgage. Mrs. Glegg, in George Eliot's "Mill on the Floss," tells of her dislike "to die without leaving more money out at interest than other folks had reckoned." And the other side of the picture is exhibited in Mrs. Tulliver's hint to her husband, "Suppose sister Glegg should

call her money in—it would be very awkward for you to have to raise five hundred pounds now." Candour requires the admission that in remote parts of the country (where *nolumus leges Angliæ mutare* still persists as almost the fundamental social axiom), the placing of money "out at interest" on a mortgage remains the rule with its possessors. Many a country chapel forms, in this way, the investment for the savings of the neighbouring farmer, or the village tradesman. The reason is not far to seek. The holder of a mortgage on local buildings or local land can see with his own eyes that his security stands where it did. With his own voice he can apply for interest due, and into his own hands receive it. That which is local and palpable he understands and trusts. That which is distant and invisible he only dimly realises as existing at all. But if this is the state of mind of the ultra-conservative minority, what influences operating within the last thirty years have so conspicuously altered the mental attitude of the aggressive (or at least advancing) majority?

The answer to the question introduces us to a group of forces which are in a state of continual reaction upon each other. The first is the permeation, downwards through the social strata, of educational acquisitions which were quite out of the reach of the generation that witnessed the advent of the Companies Act of 1862. Concurrently with educational development there has come an immense increase in the number, and a considerable augmentation of the acumen, of the reading public. This, again, has paved the way for a cheap and enterprising Press, which puts a well-edited and adequate survey of the world's happenings

into the hand of every man, howsoever humble, who has so far profited from the provisions of the Elementary Education Act as to be able to read. The Press, once more, creates and stimulates a wider public for itself, so that the action and reaction are ceaseless and omnipresent. The facility with which joint-stock enterprise can be initiated since the Act of 1862 has brought into existence over 100,000 companies, the majority of which, in the first place, could not have been born without this special legislative assistance (revised and renewed from time to time), and in the second, could never have been nourished into infancy, much less into maturity, without the publicity that the cheap Press provides. For it is the cheap Press which has stimulated the financial education, and fired the imagination, of its readers, and has, in that way, brought into being the vast public which now casts a critical eye upon the daily record of City happenings.

The Democratisation of Finance.

These are the main influences. There are, of course, many others set in motion, or maintained in activity, by these. Prominent among them are the efforts, initiated from a variety of social sources, to raise the standard of living. These have created, in the first place, a greater spending power in a very large proportion of the community, with the result of bringing into existence an immensely augmented demand for all classes of commodities, so that joint-stock enterprise has at once a wider field of operation, and is the object of a closer observation by a larger

audience while it is at work. Sixty years ago there was no public that could have supported Liptons' trade; still less was there a public which would have been willing, and able, to buy Liptons' tea and Liptons' shares at the same time and from the same purse. The example might easily be paralleled for companies doing business with a class of society wholly different from that upon which Liptons depend. Maple's could not have been supported in its gigantic and far-flung activity from any social resources which were available sixty years ago. In the first place it would not have been possible to place the enormous capital; and in the second, there was no such huge and continuous demand for high-class domestic adornments and utilities as would have sufficed to yield a return upon it, supposing it to have been capable of aggregation. There is no more suggestive field of economic inquiry than that which is offered by this unceasing interaction of the social forces upon financial activity, and of financial activity, in turn, upon social development.

"Banking by Post."

For instance, consider the Post Office as a financially educational influence. In the first place, it provides a means, otherwise unattainable, for the dissemination of prospectuses, circulars, newspapers, and other literary stimuli of financial activity. But this is not the aspect to which I am at the moment anxious to direct attention. The Post Office is itself a huge credit machine. The Postmaster-General has agents in every town and village, all of whom (from the head

postmasters in towns like Glasgow and Birmingham, down to the humblest village shopkeeper who provides a domicile for the local postman) are in the constant receipt of funds for his account. The Postmaster-General is therefore in a position to receive £20 at Glasgow, and to remit it to Lincoln (in return for a charge of sixpence) by the simple process of drawing on his own resources in the hands of the Lincoln postmaster. The transaction is perfectly analogous to that of a bill of exchange drawn by a Rio de Janeiro banker upon his London agents. But the Postmaster-General will not only issue a sight draft payable at a particular office; he will sell a sight draft payable by *any* of his myriad agents. This he calls a postal order; and it is only prevented from becoming a recognised paper currency by the imposition of a penalty on its circulation after a period of three months from issue. These facilities, now regularly employed even by nursemaids and schoolboys, do much more than familiarise the democratic mind with the meaning and the operation of credit. They keep money out of hoards. Fifty or sixty years ago a bank account maintained at a distance by a customer whom the banker had never seen, and whose balance rarely "ran into three figures," must have been a rare, if not a unique, banking phenomenon. To-day the banks seek this class of business. One of the best known, and strongest, of the London banks reminds the public that an account may be opened, and all transactions effected, entirely by post. The Chancellor of the Exchequer would certainly be astonished if he knew how this class of banking business has grown in popularity, partly because of

its convenience, but even more because of its secrecy. The man who is slowly building up a small capital sum is jealous of his neighbour knowing it. The sentiment may or may not be amiable: the fact of its existence and potency is one of the most significant features of the democratisation of finance, which is proceeding so steadily all around us.

The Imitative Factor.

There are, once again, quite a large number of forces which always appear in operation wherever the human factor is present, and are in no respect, save that of their scope, dependent upon the stimuli administered by a myriad-minded Press. For example, the imitative faculties of mankind are in all ages sleepless. Their share in the creation and acceleration of the mechanism which we are examining has been the suggestion to the investor and speculator of medium or modest resources that markets exist for him as well as for millionaires; nay, that in some instances he may himself follow the market path to its bourne in the "millionairism." The advent of this class of operator would in itself alone be constituted an appreciable City force. The stock markets are instantly sensitive to the new demand which accrues from the speculating ambitions of the newcomer whose means and nerve are not equal to operations in the "Heavies," or even in De Beers. For these new patrons City ingenuity and complaisance creates the £1 share, and, when the process of permeation has attained a deeper level among the social strata, there follow denominations of 10*s*., 5*s*., 2*s*., and

even 1*s*. City experience has even included farthing shares, but these were issued under exceptional circumstances, and did not represent any endeavour to cater for the investing aspirations of the submerged tenth. It would, however, be the bare truth to say that the success of the popularisation of rubber shares, which is probably destined to be the most conspicuous feature of the market history of the year 1910, is in the main due to the choice of the denomination of 2*s*. for so many of the best-known "counters." The 2*s*. share does not exclude the humblest speculator. Even the possessor of a superfluous half-sovereign may subscribe for five shares, with an excellent chance of receiving an allotment. The modern prospectus may quite possibly contain an intimation that every applicant will receive a proportionate allotment—which is a long flight from the directorial methods of twenty years ago, when, for instance (as the City believes), a well-known business was almost irretrievably injured by an "exclusive" allotment at the time of its conversion into a public company. The definite promise of an allotment certainly encourages the small applicant, though a "stag"; and if it be his happiness to secure it, and to sell his 2*s*. shares at 4*s*. each (some of the 2*s*. rubber shares have been well above £2), he has doubled his money, and his attention will be concentrated with even greater eagerness upon the City column. These phenomena, let it be said at once and emphatically, are not entirely welcome. Their existence and their scientific significance, however, it were vain to ignore in a survey which makes any pretence to even a general inclusiveness.

The Work of the "Circulariser."

For the same reason it will be desirable to offer a compact characterisation of a simultaneous process (undeniably stimulating to the financially-inquisitive faculties of the public, and in that sense educational), which may be characterised not only as unwelcome, but as pernicious. The reference is to the unending tide of circulars, containing specious "tips" and alleged "advance information," sent out by a class of men whom the City calls "touts," and flung by every morning's post upon provincial and suburban breakfast tables. This kind of literature has done so much to arouse the interest of the public which already knew something about the City, as well as to bring a much wider *clientèle* within the arena of financial ambitions, that the present essay would be utterly inadequate without some attempt to sift its character and to explore its origins.

Inasmuch as the professional stock and share broker is generally a member of a Stock Exchange, it is usual to call him an "inside" broker. The name distinguishes him from the professional rival who owes no allegiance or obedience to a Stock Exchange Committee, and is therefore called an "outside" broker. The continued use of these two terms has not unnaturally suggested the idea that they represent an exhaustive classification. In a sense they do. Every stock-broker must be either an "outside" or an "inside" man. In truth, however, the "outside" brokers fall into two well-defined sections, one of which is composed, in the main, of competent, honest, and trustworthy men; and the other, of persons

whose methods must be characterised by other adjectives than the three which have just been employed. The "outside broker," properly so called, must be clearly distinguished from the person who is generally known as a "circularising tout." The existence of the outside broker is simply a consequence of the Stock Exchange rule that a member may not advertise, nor send circulars to any persons other than his own principals. The inside man is also handicapped, together with his clients, by some of the customs of the Stock Exchange. Such customs exist, and their observance is enforced, for the protection of the public. Of that there is no doubt. But the public is apt to be impatient of control, and of that which it calls "red tape." Clients who want to do their business in their own way are inclined to welcome a man who professes himself free from the sometimes irritating restrictions of the "House." They think none the worse of him because he and the purchases that he recommends are self-introduced, by means of a circular which an "inside" man would not be permitted to send, or as a result of an advertisement in the newspapers, one insertion of which by an "insider" would determine his membership of the Stock Exchange. Moreover, the "outsider" occasionally does his business in the "House" itself. There have been instances where the business intimacy between an "insider" and an "outsider"—the one doing the advertising, and the other the actual bargains—has been so close that the suggestion of a working arrangement has not been entirely ludicrous. It has even been said that in any case, whether there is a working arrangement or not, the

"House" gets the larger proportion of the patronage which springs from the "outsider's" work. An "outsider" of unique experience has assured me that he was well satisfied if he got 20 per cent. of the business created by the publicity for which he paid, while the "House" got the balance. Be that as it may, the honesty and substance of some of the big "outside" firms are beyond question. They give "straight" advice: they buy and sell: they gather a vast *clientèle*, extending in many cases to the uttermost parts of Great Britain and the Continent: and they command resources which are quite equal, and in one or two instances probably superior, to those at the disposal of any but the wealthiest of the large "inside" houses. To put it bluntly, the "outside broker" is in precisely the same position as the family grocer—he must please his customers, or he will not keep them. Where this class of broker despatches circulars to the public or to his clients, he sends, in the great majority of cases, information that is often valuable and sometimes exclusive, as well as criticism and forecast that are the work of market experts who are often paid very highly to write it for him.

The "Tout" at Work.

Far otherwise is it with the operator at whom the City flings the forcible epithet of "tout." This man lives by the losses of his clients. He sends out circulars by tens of thousands, offering to "open" stock at 1 per cent. "cover," to which the client's possible loss is limited. For example, he professes that he will open £500 worth of stock, for the rise,

at 99 (£495), on receipt of the £5 (£1 per cent.) which will guard him against the risk of a decline of one point. If the fall takes place, the cover is said to be "run off" and the stock is "closed." The client has lost his money. If the stock rises, so that the client claims his profit, the tout declines to pay. If the client braves the criticism of his friends and neighbours by appearing as plaintiff in an action against the tout, the latter will successfully plead the Gaming Act. That is to say, he will assert, and generally with complete success, that the transactions which are the subject-matter of the action were mere wagers on the course of prices, and did not represent actual dealings in the stock. Naturally a plea of this kind, however successful, would be as fatal to the acquisition of further clients as would a reputation for resisting claims to the business of an insurance company. But the difficulty will be obviated by a removal of the "firm" to another address, whence, under another name, fresh circulars will be issued and fresh captures made. Another device consists in parading, also by means of specious circulars, the attractions of a "syndicate" or "operation" which is about to be entered upon, and to which subscriptions of £5 or upwards will be received. A profit is said to be certain. All previous transactions of the same kind have been immensely successful. Impudence occasionally goes to the length of "guaranteeing" a profit; and people subscribe on the faith of the guarantee, oblivious of the fact that the suggested transaction amounts to an offer, by a perfect stranger, to incur the trouble and the risk of an extensive Stock Exchange transaction, for the

purpose of making profits for other people. These schemes are the devices of schemers whose gains can only come from their clients' losses, and who deliberately mislead them to that end. To employ the expressive, if colloquial, language of the racecourse, they are "welshers" of the worst type.

The Personnel of the Investing Public.

The effect of these and the concurrent financial influences has been to produce such a change since the passing of the Joint Stock Companies Act of 1862 as almost amounts to a revolution. How complete, how absolute, it is can only be thoroughly understood by a comparison of the class of investor who figured in the register of shareholders of the early companies under the Act of 1862 with those who make up the modern lists on the thousands of files at Somerset House. For the purpose of instituting the comparison I take, at haphazard, the return of the shareholders of the Alamillos Company, dated April 21st, 1864. The shares were of the £2 denomination, and all were held in substantial, or at least fairly substantial, blocks. The social status of the holders and the magnitude of their interests can best be shown by taking the first twenty-five names in the list and adding he number of shares held by each person. These were the names of a wharfinger (300), a solicitor (60), a brass manufacturer (107), a vice-admiral (825), a firm of merchants (55), a professor of chemistry (10), a broker (285), a gentleman (550), another gentleman (350), a copper smelter (350), a doctor of medicine (52), a civil engineer (75), a Treasury

official (26), a spinster (136), a banker (50), a lady of title (3), a clergyman (10), a gentleman (1,000), a member of the Stock Exchange (16), a clergyman (100), a solicitor (321), a Member of Parliament (207), an architect and surveyor (50), a decorator (30), and a banker's clerk (21). If we turn from this list, with its unbroken suggestion of a certain degree of social position, to a modern register such as that of Selfridge's, the change in the *personnel* of the investing public will be exhibited in striking clearness. The Selfridge list includes, to commence with, a very large proportion of married women and spinsters. That fact is of itself significant of the great change which the last half-century has wrought by means of the Married Women's Property Act, and as a result of an absolute revolution in public sentiment with regard to the gentle sex. But in addition to its multitude of married women the Selfridge list includes such shareholders as a cabinet maker (25), a commercial traveller (50), a gas collector (10), a clerk (30), a hospital nurse (10), a domestic servant (5), an outfitter's assistant (5), a farmer (100), a dressmaker (5), a housekeeper (5), a schoolmistress (10), a lady's maid (10), a grocer (5), an ironmonger (10), a valet (40), a printer (10), a caretaker (2), a governess (30), and a bespoke tailor (3). Nearly every one of these represents a class of the community to whom investment was a word of unknown meaning, and the process itself an unprobed mystery, fifty years ago.

Life Insurance Development.

Joint-stock enterprise, however, forms only one channel through which the vast volume of invested

funds finds employment and return. Very large sums of money lie on deposit in the banks to the credit of people who, even in an investing age, distrust any security but that of a banker. Still larger sums are paid to the life insurance companies—life only, because fire and accident and contingency assurance contains only the element of precaution, and not the other factor of investment. Life assurance is capable of instantly creating a large provision in return for a comparatively small payment. The man of twenty-eight might require years of economy to amass £1,000 for the protection of his wife and family in the event of his untimely death. But the amount is rendered immediately available (upon the happening of the contemplated contingency) by the payment of about £35, the first year's premium. Thenceforward, provided he keeps the policy unencumbered, the sum assured may be counted among the resources of his executors. This is the older—we might almost say the antique—method of insurance. The augmented financial acuteness of the public has compelled the insurance companies to modify, very extensively, a mode of operation under which longevity is severely penalised, since it is obvious that an insurer on this old plan, if he live to an advanced age, will expend upon premiums a sum of money considerably larger than the ultimate value of the policy. Hence the rise into popularity of the endowment policy, under which the premiums are payable only for an agreed term of years, at the end of which the sum assured becomes receivable by the living man instead of by his executors. Hence, again, the recurring bonuses paid to policy-holders, either in the shape of "cash down,"

or of an addition to the ultimate value of the policy. Hence, yet once more, the willingness of insurance companies to make advances upon the security of the policy, to issue a paid-up policy of proportionate value if the insurer becomes unable to maintain his payments, and to apply the surrender value in extinguishing overdue premiums. All these novelties, these conspicuous advantages, are concessions to the perspicacity of a public which every year takes a firmer grip of financial realities, a more comprehensive and critical survey of the investment opportunities of the age.

The Advertising Agent.

Yet another potent factor in the development of the financial judgment of the ever-augmented multitude which has money to invest is to be found in the work of the advertising agent. He serves both the company promoter and the insurance company. His work is unobtrusive, not to say obscure. Nevertheless, the City advertising agent, with a large practice in prospectus and financial advertising, offers one of the best instances of the specialisation which is so characteristic a feature of modern social and financial organisation. The advertising of the prospectus is but one of the many processes necessary to issue a loan or float a company. But it demands the highest skill, and is served by a large and complex organisation which is entirely devoted to it. Let the case be that of a foreign municipal loan. One brain, stored with the experience, and equipped with the power of rapid judgment, which alone can make the successful financial diplomatist, will have conducted the negotiations,

probably on the spot, by means of which the rate of interest, price of issue, mode of repayment, and, perhaps, terms of underwriting, will have been agreed upon. Another (with a specialised knowledge of law and of the psychology of the City, and of the investing public generally) will draft the prospectus, another (with a special "connection" among underwriters) will place the underwriting, and if that has not been already done, arrange with some leading bank or issuing house to do the detail work of allotment, as well as the exchange of the allotment letters for scrip certificates and the subsequent exchange of the latter for the definitive bonds. There is specialisation at every point. To neglect its aid in the forging of any single link of the long chain is to court disaster when the strain of a public issue has to be borne.

The advertising agent (who is called in when all is ready for the public issue) is acquainted with the "vogue" of the various newspapers in all parts of the country. If the proposed emission is that of a first-class colonial loan, he knows that a "down column" advertisement in a few of the leading dailies, financial and political, will be all that is necessary. It will bring the fact and terms of the loan before the select class who alone are likely to subscribe to it, since a fixed interest of $3\frac{1}{2}$ or 4 per cent., with no speculative possibilities whatever, does not appeal to the great mass of the investing public. Again, if the proposed issue belongs to some special industrial class of investment, the advertising agent will advise which are the best media for reaching the investors to whom that class of business is no forbidding mystery. A gas company's prospectus will be advertised in selected

newspapers which have their "vogue" in the gas trade, as well as in the leading financial and political dailies. But even in the case of a gas company these tactics may be modified by circumstances. For instance, a new issue of stock by a gas company of old standing and recognised prosperity will be announced (unless the new stock is taken by existing shareholders) in the conservative fashion already indicated, in the columns of a select list of old-established newspapers. The agent, in conveying the orders to the newspapers, becomes, in the majority of cases, a principal. The newspapers, who might not accept the orders of a promoter, or a promoting syndicate, have their own knowledge of the advertising agent's resources; while he, on his part, has a profound acquaintance of the conditions, as to "position" and "display," imposed by each particular newspaper. The rapidity of the process may be judged from the fact that prospectus advertisements are not usually "given out" till 5 P.M. for the next day's newspapers. The resources of the leading agents may be estimated from the fact that one of them was left, some time ago (in consequence of the failure of a promoting group) to face a liability of £10,000 for advertising orders which he had given. The amount was cheerfully paid in the ordinary course of business, and few, except the intimate friends of the agent, ever knew of the occurrence of the episode. The ordinary observer of the City activities might well be pardoned for his ignorance of the fact that the success of an important issue might be jeopardised by an error in the selection of the newspapers which are to receive the advertisement. Yet it is true that in one case an

over-subscription might be assured by the insertion of the advertisement in the veteran financial and political dailies, while in another the appeal must also be made through their younger and less sedate rivals, because the response is expected from an entirely different public. The former is the case of a Colonial loan; the latter that of a rubber, oil, or mining company, less attractive to the conservative instincts of the large investor than to the speculative, not to say the sporting, proclivities of his more modest contemporaries who admire the lighter "touch" of the junior dailies and the "new" City editors.

There are in operation a few other modes of financial publicity which need only form the subject of a passing allusion. The process of circularisation by a broker has already been described. In some instances the circulars are posted to investors whose names and addresses have been collected from lists of shareholders, or from the books of other "circularisers." More often, however, the provision of the addressed envelopes is confided to some firm which specialises in this class of business. Such a firm will collect and collate the names and addresses of all the known investors in the land. It will eliminate duplicates, so as to prevent more than one copy of a given document from going to a single address, or even to more than one member of the same family. This precaution is a consequence of the increasing discriminative power of the individual investor, who may be influenced adversely to a given issue by the apparent wastefulness in sending him more than one prospectus, though it is, in fact, only a natural consequence of the appearance of his name in two or more

separate companies' registers. The addressing firm will also collate the lists as to locality, so that shareholders in a selected district, or county, may be made the only recipients of a prospectus; or as to the class of investment, so that the prospectus of a new bank may be sent only to those investors who are known to have a *penchant* for that kind of security. The element of time, too, will be provided for. The largest of the addressing firms can send out a million prospectuses per day (including the addressing, folding, stamping, and despatch) without any strain upon its resources. It has been said that the rapid and efficient operation of this one process alone has involved the placing of an order for 100,000,000 envelopes in one line. Yet it is only a subordinate, quite a subordinate, factor of the financial mechanism which thus calls into existence a huge and complex business organisation devoted to the provision of addressed envelopes by millions at a time. Still another, and a totally different, form of financial publicity (even more characteristic, perhaps, from our present point of view) is the hawking of obscure American railroad and industrial bonds from door to door. There is always some contingent privilege attached to these "securities," apart from the interest (generally 8 to 10 per cent.) which they carry. The privilege may be the right of sharing in the dividends on the common stock, after the payment of a certain rate, or of conversion into the common stock at a certain price. This appeals to the gambling instinct, which is almost invariably a characteristic of the apprentice investor. In any case the fact that such offers should be made, literally from door to door, is a

demonstration of the democratisation of investment, even if it be not entirely without its disquieting features.

Education by Advertisement.

But whatever the character of the appeal for the co-operation of the investor, there is no mistake about the financially educational value of all the ceaseless publicity of financial advertising, whether it take place in the column "next the City article," or on the doorstep of an investor newly introduced to the mysteries of finance. When we know that the first list of Lipton shareholders which was filed with the Registrar of Joint Stock Companies contained over 70,000 names, we may predicate the democratisation of investment. Thousands of these shareholders held only fives, or tens, or twenties. In hundreds of cases the investment represented the whole of the applicant's available savings. That he should have so far studied the prospectus as to form a favourable judgment of the outlook, and that his mental verdict should ripen into the filling-up of an application form and the despatch of his money is surely, when it is witnessed in such a huge aggregate of individuals, an episode so significant that it might almost be described as an economic portent.

Negotiating a Foreign Loan.

It will be an advantage to complete this portion of our study by considering the actual process of issuing a foreign loan. The selection of an industrial or mining security for this illustrative purpose would necessitate the introduction of considerations which

might detract from the clarity of the description, until the broad outlines of the process have been familiarised. For instance, an industrial flotation will almost of necessity include more than one class of share, and quite possibly an issue of debentures. A foreign loan will comprise but one class of bond, so that the essentials of its negotiation and emission will be thrown into greater conspicuousness by the absence of embarrassing minutiæ. The process falls within the general scheme of this essay because it is essentially representative of a class of transaction that is incessantly being initiated, discussed, elaborated, and consummated; and it enters into the plan of the present chapter because, if it be of any magnitude or importance, it will be the subject of newspaper reference and Stock Exchange gossip at every stage of the procedure after the fact of its initiation becomes known. That is to say, the issue price and the rate of interest, the date of maturity and the moment of launching, will all be the topics of eager and critical comment, with the result, of course, that the process of financial familiarisation will be advanced another stage. The fact that the investor has recently declined to subscribe for short-dated corporation issues, notwithstanding their attractiveness in other respects, exhibits him in discriminative mood, and proves that, even with regard to a detail which, twenty years ago, he would have overlooked altogether, his opinion must be considered if his favour is to be secured. The "higgling of the market" is as obvious in these dignified transactions as it is in the humbler bargaining for butter or eggs. The corporation offers a short-dated bond, so that an opportunity may

be available of reducing the interest if money becomes cheaper. The investor declines to subscribe because he is nowadays alive to the "drift" of the stratagem and is averse to having his money back upon his hands at so early a date. Hence it is that a Canadian municipality finds no difficulty in selling bonds due in 1949, though an immensely more wealthy British corporation sees its underwriters "stuck" with 50 per cent. when it offers a bond repayable in 1930.

We may assume that the borrowing authority—be it a sovereign power (like Mexico), or a provincial government (such as Manitoba), or a corporation (like Melbourne)—intends to carry out the operation on the London market. If that be so, its securities may possibly be already "known" there, and its financial interests already in charge of a great London house, which is charged with the payment of the coupons, and with other recurring duties. The London financial interests of Brazil, for example, are, and for many years have been, in charge of the Rothschild house; frequently described, in the language of the City, rather by its address of "New Court" than by the actual name of the firm. A Brazilian Federal issue will therefore be negotiated, almost as a matter of course, through New Court. There are many reasons for this. In the first place, Brazilian interests have so long been domiciled with the Rothschilds that a change, especially on the eve of a new issue, would excite speculation, not to say suspicion, and jeopardise the whole operation. In the second, the Rothschild house is itself a very large holder of the Brazilian securities which have been issued by its assistance, so that it brings not only its name and prestige, but a

weighty and widely-recognised opinion of its own to the support of the proposed issue. Once again, it wields an international power, which will attract subscribers from every part of the world-market. Finally its enormous financial strength, combined with a natural (and perfectly legitimate) jealousy of its own historic reputation, places its favoured clients above the necessity of alarm at any untoward event which, occurring simultaneously with the issue of the loan, might render it abortive in less powerful hands. Let the loan be issued in the ordinary way, under normal circumstances, and (price and other detail being reasonable) the public will probably "come in" and take all that is offered. But if there is a political or financial cataclysm while the lists are open, the public may have a fit of nervousness, with the result that the subscriptions will attain only the merest fraction of the total offered—unless, as in the case of New Court, the issuing house is strong enough to "see the thing through," whatever happens.

The complexity and delicacy of the issue process, and the skill required for its management, can be understood from these suggestions. The advertising of the loan, and its subsequent introduction to the Stock Exchange, need not be elucidated, since those aspects of the subject have already been treated in detail at an earlier stage.

CHAPTER V.

THE CLASSIFICATION OF INVESTMENTS.

Thus far, our investigation of the City organisation has extended to "credit"—the driving power; to the markets and the facilities for "transfer"—the moving mechanism; to the "record" of the investments by means of the observation of prices and influence, and the "results and tendencies," in the shape of the increasing democratisation of investment and speculation. But we have not yet devoted any attention to the criticism of the commodities which are bought and sold in the investment and speculative markets. This it is now desirable to do.

It is desirable because our study has exhibited to us, in possibly greater magnitude and complexity than we supposed it to possess, the giant mechanism which caters for the needs (and the fancies) of the constantly augmented portion of the population that has money to invest. Besides a sound knowledge of the machine itself, we ought to have the material and the intellectual equipment for the formation of a judgment upon that which it produces. There ought to be methods for testing investments, with results which should approximate to the precision of opinions formed, for the same purpose, upon the quality of other commodities. It is quite true that the rules, however carefully they may be framed, and however distinctly enunciated, cannot endow the lay observer with the same inexhaustible store of actual

experience as the professional observer possesses. You cannot turn a man into a skilled wine-taster by making him read a treatise on the art which he is expected to exercise. The analogy is rather a happy one. The ordinary educated man can distinguish a Burgundy from a claret, a sherry from a hock. So far the almost inevitable experience of life will carry him, and if, by some amazing aggregate of circumstances, he has not acquired it, a few moments will suffice to remedy the defect. But with regard to the finer judgment, which can distinguish one claret from another, or detect a "doctored" port, this is the fruit of experience and of a sensitive palate. The attainment of the exceptional skill is conditional upon the possession and the employment of the equally exceptional means of acquiring it. So also, in that world of activity which is occupied not with the tasting of wine but with the testing of investments, does the ordinary man possess a normal power of discrimination. He knows that 10 per cent. interest suggests a larger measure of risk than 3 per cent. He is aware of the difference between a corporation bond with its fixed return, and an ordinary share which can only yield a return after the claims of debenture-holders and preference shareholders have been satisfied. But can we carry his financial education further? Is it possible to lay down principles of discrimination which shall enable the formation, at all events, of a high standard of critical judgment with regard to a given investment, even though it be not so complete, or so incisive, as the opinion of an acknowledged expert, working with long years of experience to reinforce him? I believe that this is within the range

of possible achievement, and, bold as the attempt may be, I am about to make it. The same method of ruthless analysis, which has enabled us already to cut away the obscurities, and to see the essentials of the City mechanism in "credit," in "transfer," and in "record," must aid us now that we have come to "judgment"; and will assuredly, if applied with equal caution and courage, yield results as gratifying and as luminous.

Six Classes of Securities.

A serviceable classification of securities cannot be made unless we have at least six classes. By taking that number we can make a system of classification which is at once easily intelligible and perfectly natural. It will exhibit the various securities in grades which fall gradually away from the—humanly speaking—absolute security of Consols, much in the same manner as we used to be shown the Latin cases represented as lines falling away at increasing angles from the perpendicular which stood for the nominative case. Securities, then, will fall into six classes:—

CLASS.	EXAMPLE.
1. "Gilt-edged" . .	Consols: Canada Government Bonds.
2. Excellent . . .	British Corporation Stocks.
3. Good	London and North Western Debentures.
4. Industrially Speculative	Harrod's Shares.
5. Highly Speculative .	Rand Mines Shares.
6. Hazardous . . .	Shares in New Mining Companies and enterprises formed to work New Patents.

Into one or other of these classes we could place every security quoted in the "Official List" or known to the market. With regard to the great majority of securities there would be a unanimity of opinion, among competent judges, in the matter of the class into which they fell. As to the rest, various opinions as to certain aspects of the political and social outlook would exert their influence upon the minds of the observers, so that one might place a given stock in a higher class than another. There are many competent judges who would be prepared to place London and North Western Railway debentures (which I have ranked in the third class as "good"), among the "excellent" securities, if not even among the "gilt-edged."

The Purpose of the Investor.

The *purpose* of the individual investor is a factor which cannot be altogether ignored in the formation of a judgment upon the merits of an investment. Such a consideration will not, of course, modify the decision with regard to the class in which the postulated security must ultimately be placed. But it may materially influence the expert adviser in deciding whether, the class of the proposed investment being ascertained, he ought to endorse its claims to the favour of the individual investor whom he is advising. A 10 per cent "guaranteed" preference share in a mining company is "good enough" for a well-to-do purchaser, who quite realises that the 10 per cent. consists partly of dividend, partly of insurance against risk, and partly of sinking fund against the

exhaustion of the mine, and consequently buys with his eyes open. But all the persuasive powers of the expert ought to be exhausted to dissuade from a similar purchase the elderly man who has saved just £500, and who imagines that his slender resources, invested in "guaranteed" 10 per cent. preference shares, will provide him a steady £50 a year for the remainder of his existence. Yet this latter species of investor is precisely the person who is attracted and mesmerised by the rich financial aroma of 10 per cent. If the hazard of the mining share is indicated to him, he replies by pointing out that the shares are "guaranteed," in sheer oblivion of the fact that a "guarantee" bears strict and unalterable proportion to the substance and solvency of the guarantor. Between the one investor, who can afford to run no risk at all, and the other, to whom the loss of £1,000 is a mere incident, there is a great gulf fixed. Perhaps we can best express the essential truth of the matter by a reference to the classes of security which have already been defined. No investor who is dependent upon the interest of his investments has any business to go further than class 4 in search of a security; and, conversely, no speculator will find it worth while to deal with stocks of this type in the hope of a "short" profit. The investor who is deliberately prepared to incur risks, in order to obtain the benefit of a higher immediate yield and of speculative possibilities as well, may select the stocks in classes 4, 5, and 6, always bearing in mind that those in class 6 are not, strictly speaking, investments at all, but only gambling counters.

It may in truth be claimed that there is no investor, and no adviser of a candid and honest inquirer, who cannot find in the application of these principles a perfectly sound guide for the work of judgment and selection, subject only to a couple of reservations. The first is the possession, by the investor or his adviser, of a means of "placing" the securities in their various classes, in accordance with principles and rules laid down for that purpose. These I proceed to enunciate forthwith. The second is the presence, in all mundane affairs, of the disturbing factors—be they political, financial, social, seismological, criminal, or what not—whose activity and intervention no human mind can possibly foresee. When a mining share is classed as hazardous, there is a frank recognition of an inconstant and incessant risk, arising from the nature of the industry, and (except to some extent in mines whose "life" can be estimated with almost mathematical accuracy, like those of the Witwatersrand), inseparable from its operations. But when Consols are described as absolutely safe, there is a tacit omission of allusion to the possibility of such a political revolution as might create a government with repudiation as the main plank of its platform, or of such a cosmic upheaval as should hurl the waves of the Atlantic over what had once been Britain. These factors in the situation cannot be measured, cannot be foreseen. We leave them, as impregnable fortresses, in the line of march, and we proceed to the enunciation of the principles and rules by which investments are to be allocated to their respective positions in the six classes.

Rule 1—Locus and Species.

Analyse the proposed investment for the purpose of separating its intrinsic factors from the extrinsic; and examine the former as to (1) *the locus, and* (2) *the species.*

By the intrinsic factors I mean those which, in the language of logic, we should describe as "properties." They are inseparable, under all normal circumstances, from the investment, and their scrutiny, as to their locus and their species, will in a great majority of cases determine the investment to its class without the necessity of proceeding to the extrinsic factors at all. By "locus" I mean the place where the investment has its origin: or, if it be the stock of a private enterprise (as distinct from that of a national or other public authority), then the "locus" has reference both to the place of origin and the seat of operations, but is ultimately determined by the latter, since it is there that the property is situated, and the revenue is earned. Thus, the "locus" of Consols is Great Britain, and that of New South Wales Stock is the British Colony of Australia. The fact that the New South Wales Stock was issued through a London bank is a mere administrative incident, and does not affect the determination of the locus. It is otherwise with the San Paulo Railway, which is an English company, of English registration, under London management, owning and working a railway in Brazil. The "locus" here is double, but the British element (of which we shall shortly see the significance) is powerful, for it controls the management. But the property of the company is within the jurisdiction

of the Brazilian, not the British, Government, and is consequently placed in a less stable political environment than surrounds, for instance, the Great Western Railway (of Great Britain). Somewhat different is the case with the bonds of the Armavir-Touapsé Railway, where the locus is wholly Russian, since both the railway and the management are within the dominions of the Czar, and the bondholders are merely creditors. A third variety may be seen in the case of the American brewery companies known to the Stock Exchange, where the control is not wholly American, though the British element is weaker than in the case of the San Paulo Railway. The exigencies of United States law compel these companies to own merely the securities of the American company which is the real and domiciled proprietor of the breweries. In that way, the "locus" is rendered doubly distant from the proprietorship, since the shareholders, in England, possess only the stock of their own company domiciled here, and this company, in turn, owns the stock of another company domiciled in a foreign land. It would not be difficult to define these various grades of control, as influenced by the "locus." But it will suffice for our purpose to treat the "locus" as being, in all cases, either (a) British, Indian, and colonial; or (b) foreign.

The Meaning of "Species."

By "species" I mean the sort, or class, to which the security belongs, as determined (a) in the case of a public security, by the status of the issuing authority, and (b) in the case of a private enterprise, by the

nature of the business which it carries on, or is intended to initiate. That is to say, the "species" of Consols is a national Government security, and, as we have already determined the "locus" to be British, we have, in the intrinsic factors, ample material to justify us in placing Consols in class 1, without any scrutiny of the extrinsic elements. Canadian Pacific shares belong to the species railways, and the locus is a British colony. But it does not follow of necessity that a British colonial railway is a good investment, and we shall therefore have to inspect the extrinsic factors in this case before we can determine the security to its class. Once again, a Venezuelan mining company will have an unquiet republic for its locus, and mining (a risky business) for its species. It cannot, therefore, fall into any of the first three classes.

The determination of locus and species will obviously presuppose some knowledge of existing political and social conditions, as well as of business practice (and perhaps of the modes by which the seniority of various classes of stock are determined) on the part of the analyst who is applying it to a given investment; so much is an essential. No human ingenuity could frame rules which would enable an ignorant labourer to discriminate between investments. What we can do (and what I trust we *are* doing) is to discover a system by which investments may be analysed into their component parts, and so determined to their classes, and to lay down the rules by means of which this dissecting process may be applied. The person who has no such general knowledge of the political and social conditions ruling

among the nations of the world as to be able to apply this rule in the manner which I am about to explain, as well as the persons who are wholly ignorant of business principles, are no more justfied in acting upon their own judgment in financial affairs than they would be in endeavouring to fight a complicated Chancery suit without legal aid, or to perform a dangerous surgical operation upon their own physical frames. If the attempt is made, the rash experimentalists must be prepared for the consequences.

The Principles of "Locus."

With the aid, however, of his own perusal of the serious newspapers, reinforced by such guidance as the present essay offers, the investigator who sets out to determine and consider the "locus" will see, upon careful reflection, that the political and social conditions of all the nations, or Powers (for the terms are not synonymous) of the world will cause the various communities to fall into four well-defined orders:—

Principles of "Locus."

(1) Those nations (or those component parts of nations) where a racial instinct of order and the existence of a strong central and constitutional authority place any prolonged and serious political and social upheaval outside the range of any but the most remote possibility. Such are Great Britain (including the great self-governing colonies) and Egypt, the United States and Japan, the great European Powers (except Russia), and the more stable of the smaller European nations, such as Holland, Belgium, Norway, and Switzerland (but not Turkey, Portugal, or Greece). Spain stands on the border line between settlement and unrest, and the next ten years will be required to decide her place in this classification. With the exception of the British self-governing colonies,

the United States, and Japan, no extra-European nation or Power falls into this order. But if Mexico demonstrates her capacity to maintain order and progress when the strong guiding hand of Porfirio Diaz is at last removed she will make good her title to enter the first rank, and the next to attain it (provided they keep their present claims untarnished and make further constitutional advance) will be the Republics of Argentina, Chili, and Brazil.

(2) Those nations which possess a strong central administrative power, but have not reached the stage of an unassailably-established constitutional government. In such instances there is not necessarily such a general recognition of the necessity of the maintenance of public order as prevails in the nations (or Powers) of Order 1. The result is that the movement forwards and the ultimate establishment of a greater or less degree of constitutional freedom are likely to be attended with political and social disturbances of uncertain scope and vehemence, and these introduce the element of instability, and profoundly modify the *primâ facie* aspects of investments which have such nations for their "locus." Russia is a characteristic example of this Order; and for the present Mexico, Brazil, Argentina, and Chili must also be allocated to it. These four nations are, however, serving the final years of their political apprenticeship, and should shortly be able to satisfy a critical world that the last traces of the virus of armed revolution have been eradicated from their systems. When that time comes they will be entitled to a position in the first order.

(3) Nations which are as yet almost inchoate from the point of view of aspiration for, much less the realisation of, real constitutional liberty and responsibility. Such are China, Turkey, and Portugal, as well as the almost irresponsible "Republics" of Central and South America—Honduras, Bolivia, Venezuela, and Paraguay. Uruguay, owing to her proximity to the sobering influences of Argentina and Brazil, ranks (on preliminary examination) in the second class, as also does Peru. Greece offers a doubtful case.

(4) Peoples wholly unorganised, politically unborn, like the Esquimaux, the Papuans, and the aborigines of Australia.

The "Locus" of Known Borrowers.

In illustrations of these principles I give the "locus" of all the national and provincial Governments which are known as borrowers to the Stock Exchange. In only two or three cases, I believe, can there be any

serious difference of opinion on the subject of the respective "loci":—

Alagoas	...	...	3
Alberta	...	...	1
Antigua	...	...	1
Argentina	...	...	2
Austria	...	...	1
Bahamas	...	...	2
Bahia	...	...	3
Barbados	...	...	1
Belgium	...	...	1
Brazil	...	...	2
Britain	...	...	1
British Columbia	...	...	1
British Guiana	...	...	1
British Honduras	...	...	1
Buenos Ayres (Province)	...		2
Canada	...	...	1
Cape of Good Hope	...		1
Ceylon	...	..	1
Chili	...	...	2
China	...	...	3
Colombia	...	...	3
Cordova (Province)	...		3
Costa Rica	...	...	3
Cuba	...	...	3
Denmark	...	...	1
Dominica	...	...	1
Ecuador	...	...	3
Egypt	...	...	1
Essex County (U.S.A.)	...		1
Fiji	...	...	1
Finland	...	...	2
France	...	...	1
Germany	...	...	1
Gold Coast	...	...	1
Greece	...	...	3
Grenada	...	...	1
Guatemala	...	...	3
Holland	...	...	1
Honduras	...	...	3
Hong Kong	...	...	1
Hungary	...	...	1
India	...	...	1
Isle of Man	...	...	1
Jamaica	...	...	1
Japan	...	...	1
Lagos	...	...	1
Liberia	...	...	3
Louisiana	...	...	1
Manitoba	...	...	1
Mauritius	...	...	1
Mexico	...	...	2
Montserrat	...	...	1
New Brunswick	...	...	1
New South Wales	...	...	1
New Zealand	...	...	1
Newfoundland	...	...	1
Nicaragua	...	...	3
Norway	...	...	1
Nova Scotia	...	...	1
Ontario	...	...	1
Para (State)	...	...	3
Peru	...	...	2
Portugal	...	...	3
Prussia	...	...	1
Quebec (Province)	...	...	1
Queensland	...	...	1
Roumania	...	...	3
Russia	...	..	2
St. Lucia	...	...	1
Salvador	...	...	3
San Paulo (Province)	...		3
Santo Domingo	...	...	3
Saskatchewan	...	...	1
Saxony	..	...	1
Servia	...	...	3
Siam	...	...	2
Sierra Leone	...	...	1
South Australia	...	...	1
Spain	...	...	*3
Sweden	...	...	1
Switzerland	...	...	1
Tasmania	...	...	1
Transvaal	...	...	1
Trinidad	...	...	1

* Under Rule 4.

Turkey	*3	Victoria (Australia) ...	1
United States	1	Virginia	1
Uruguay	2	West Virginia	1
Vancouver	1	West Australia	1
Venezuela	3	Zanzibar	1

Principles of "Species."

So far of the locus, the *place* of the investment. Similar principles of analysis applied to a consideration of the different *character* of investments will give us five distinct species. A critical examination will yield us a principle of classification which is adequate, sound, and exhaustive, in spite of the infinite variety which appears at first sight to characterise the multitudinous subjects of the process.

First species: The securities of, or the securities unconditionally and perpetually guaranteed by, national Governments.

Second species: The securities of, or the securities unconditionally and perpetually guaranteed (*a*) by subordinate Governments (such as those of provinces or States); or (*b*) by a municipal or other public administrative authority (*e.g.*, a port authority) where the province, State, or town has a population exceeding 50,000.

Third species: (1) The securities of, or the securities unconditionally and perpetually guaranteed (*a*) by subordinate Governments (such as those of provinces or States); or (*b*) by a municipal or other public administrative authority (*e.g.*, a port authority) where the province, State, or town has a population less than 50,000; (2) the stocks, other than the ordinary (or common) stocks of companies which have, for a period of six years previous to the inspection, paid a dividend of not less than 5 per cent. on their ordinary (or common) stocks.

Fourth species: The ordinary securities of all financial, industrial, and commercial enterprises, except mines.

Fifth species: Mining companies of all kinds.

The stocks, other than the ordinary stocks, to which allusion is made in (2) of the third species will of course be the debentures (of all ranks and classes) as

* This "locus" will not apply in the case of loans guaranteed by the Powers. In those cases the "locus" is 1, under Rule 3.

well as the pre-preference, cumulative preference, contingent preference, and preferred ordinary. A deferred ordinary stock will rank as ordinary, but a deferred stock which is junior to the ordinary stock is too speculative for separate classification, especially if its privileges are of one of the peculiar types now so often created.

There is, too, a difference in standard between the securities of subordinate public authorities within the jurisdiction of powerful Governments like the British or the American, and those of provinces or municipalities which form parts of national communities where the locus is of the second, third, or fourth order. A British county or a Canadian province is so far under the control of the central authority that it would be sharply "brought into line" if it were to become oblivious of its credit. But in the more-loosely strung communities of the second class the power of the central government is by no means so predominant. Cordoba and Rosario inflicted infinite damage upon Argentine credit, in practical defiance of the Federal Government. Hence the necessity for Rule 2 :—

Rule 2.

Provinces, States, cities, or public administrative authorities, which are within the jurisdiction of nations having a locus of the first class, take that locus ; but in other cases their locus is one degree lower than that of the nation of which they form a part.

We are now in a position to state the rule for the preliminary classification of the investment on the

basis of the intrinsic factors. In some cases this will determine their final rank. In others we shall have to go on to scrutinise the extrinsic factors before we can finally allocate the investment to its position. The rule is :—

Rule 3.

Ascertain the distinctive numbers of the locus and of the species of the investment under examination. Add the two numbers together, and subtract one from the result. The remainder is the number of the preliminary class to which the investment belongs. A security unconditionally guaranteed by any authority or undertaking takes the class of the guarantor.

Thus, the bonds of the Western of Minas Railway — a Brazilian industrial undertaking — enjoy the guarantee of the Brazilian Government. Their locus is Brazil, their species a Government security. If Brazil be placed in the second order of nations, these bonds therefore rank provisionally in the second class, subject to a scrutiny of the extrinsic factors. Failing the Government guarantee, their preliminary classification gives the fifth class :—

[(Locus 2 + species 4) = 6 − 1] = class 5.

But the guaranteed security is the exception, not the rule. Let us apply the rule in a few instances, and ascertain if it yields results which will commend it to sound and competent judges. Consols enjoy a British locus (1), and are of the first species (national Government security). We get, therefore :—

[(Locus 1 + species 1) = 2 − 1] = Class 1.

Again, take the case of an industrial enterprise, such

as Harrod's Stores. For the ordinary shares (at the present stage of our discussion of this process, but see rule 6) the formula will be:

[(Locus 1 + species 4) = 5 − 1] = Class 4.

For the senior securities (the debentures and preference shares) the formula will of course be

[(Locus 1 + species 3) = 4 − 1 = Class 3.

But let us assume that Harrod's decide to form a subsidiary company to open stores in Bolivia. The first question which confronts us is whether the original British company guarantees the securities of the subsidiary. If it does, the subsidiary takes the class of the guarantor, in accordance with Rule 3. If not, we have

[(Locus 3 + species 4) = 7 − 1] = Class 6.

That is to say, the investment is "hazardous." No competent student of the science of investment will challenge the verdict. Once again—while the present essay was in the press the Grand Trunk Pacific Branch Lines Co. issued a 4 per cent. bond "unconditionally guaranteed," both as to principal and interest, by the province of Saskatchewan. Without the guarantee we should have had

(Locus 1 + species 4) − 1 = Class 4.

But the unconditional guarantee of the Canadian province alters the formula to

(Locus 1 + species 1) − 1 = Class 1.

Further Illustrative Instances.

It will be seen from these examples that if the element of speculation inseparable from every industrial enterprise be present in the species, the

ordinary shares cannot (unless they come within the provisions of Rule 6) rank higher than Class 4. They can do this only if the locus be of the first order. It follows that if the locus be inferior to the first, the investment is reduced in rank to the extent of one class for every corresponding decline from the first order. For example, let the species of the investment be that of banking. This contains a speculative element, and the investment is therefore placed, by its species, in Class 4. The business, however, is to be carried on in native China [*i.e.*, not in a Treaty port], which is a locus of the third order. This involves a reduction of two degrees in the rank of the investment. It falls into Class 6. Again, to select an almost grotesque example, let the locus of the supposed bank be of the fourth order. The reduction in rank, in accordance with the rule, will then carry the investment into a supposititious seventh class—or, in other words, altogether outside the limits of a possible definition of the risk, which has become so great as to be beyond even approximate estimation.

The preliminary allocation of investments to their class, in accordance with this system of classification, takes place with an almost mathematical precision. The five species are clearly and sharply marked, so that there cannot, save in exceptional instances, be any hesitation in the assignment of the given security to its place among them. With regard to the determination of the locus, there may in some few cases be a difference of opinion, arising from varying individual judgments of the stage of political and social development and stability at which a given nation has arrived. But these differences, again,

can only be exceptional. It is believed that the characteristics of the various loci have been clearly explained; so that the application of the tests needs only an ordinary educational equipment, reinforced by reasonable knowledge of contemporary opinion and an intelligent perusal of the story of current events, as is told in the leading newspapers. If there is, however, any hesitation, arising from an individual inability to determine the order of the locus or the rank of the species, the rule is this :—

RULE 4.

Where the proposed investment (owing, for example, to the impossibility of an accurate definition of the order of the locus or the rank of the species) stands upon the border line between two classes, the final judgment should be based upon the assumption that it has been determined to be the lower of the two.

There remain the extrinsic factors. But before proceeding to their analysis it may be well to deal with the objection, certain to arise at this stage of the discussion, that this whole system of investment classification is too conservative. The answer is that, in the case both of the investor and his adviser, it is much more desirable that the element of risk be over-estimated than under-estimated. The investor cannot be prevented from taking risks. In a very real sense the progress of the world depends, as human society is at present organised, upon his willingness to take them. But it is, to my mind, above all things essential that he proceed with his eyes open. Not less than nine-tenths of the misery

which financial misjudgment brings upon the investor arises from his under-appreciation of the attendant risk. He relies upon the reports of experts and the estimates of vendors. He accepts them at their face value, instead of ruthlessly discounting them in accordance with the principles now clearly deducible from half a century of expanding financial experience. My aim is to persuade him to apply those principles in every instance of an application for his favour. Then, if he grant it, an accurate measure of the risk confronts him. None can stay his hand if he decide to incur it. But he is at least a conscious adventurer, and not the self-hypnotised acolyte of his own or other people's vaporous optimism. The preliminary classification, with its very conservative verdicts, will at least have placed him on his guard, and given him a firmer standpoint whence he can conduct the subsequent operations of the examination.

The Extrinsic Factors.

For the examination of the extrinsic factors the investor or his adviser will in the majority of instances require a reference book. In the determination of the locus or species he may have occasionally required it (*e.g.*, in questions of population); but the investigation must now be carried into minuter detail. The current "Stock Exchange Year-Book," which is to be found in every public library, will meet all his requirements. In regard to securities assigned by preliminary examination to Class 1, no scrutiny of extrinsic factors will be necessary. Consols, Canadian National Government Bonds, French Rentes, United States

and Japanese Bonds need the endorsement of no extrinsic factors to assure their premier position in the list. But, apart from the securities of the first class, it will in all instances be necessary to scrutinise the extrinsic factors before the final judgment can be formulated. Their scrutiny may elevate or degrade the security which is its subject. The process may be brief, or it may be extended, but there cannot be any doubt as to the extrinsic factor which may receive the primary attention. The question of the regular payment of interest in the case of the securities of a State, a public authority, or the senior stocks of a private* enterprise, is the most important consideration next to the locus and the species; and even in the case of the ordinary stock (*i.e.*, the junior security) of a private enterprise, the payment of the interest on the senior stocks must weigh heavily in the judgment of the investor, although he may be fully aware that in buying the ordinary stock he enters the arena where the speculative elements are ever playing. The first rule applicable to the investigation of the extrinsic factors may, therefore, be enunciated in these terms:—

Rule 5.

A security in present default cannot rank higher than Class 6; *and*

(*a*) *If the default has continued for a longer period than five years the stock falls out of the range of definite classification altogether.*

* By a "private" enterprise I mean one which is not managerially controlled by a public authority. In this sense the Great Western Railway is a private enterprise.

(*b*) *A security not in present default, but which has defaulted, or constructively defaulted, within the last fifteen years, falls into the class next below that in which the analysis of its locus and species would otherwise place it.*

By "default" I mean the non-payment of interest or dividend (*a*) on the due date where the date is fixed, and (*b*) within a reasonable time of the approximate date where (as in the case of an ordinary stock) the date is not fixed to a specified day, or even to a definite week. By a "constructive default" I mean the payment of interest or dividends (*a*) otherwise than in sterling or its equivalent; or (*b*) less than the stipulated amount in the case of a fixed return like that on a foreign bond or a preference share.

If a security which, upon preliminary examination, fell into Classes 2 or 3 is able to retain that position after having been tested for "default," the examination may be concluded, and the security finally allocated to that class. The reason is that, both as regards their locus and their species, these securities have demonstrated their right to a high rank, and if they are able to add the proof of an unbroken and punctual fulfilment of their obligations it would be superfluous and pedantic to subject their qualifications to any further dissection.

The application of these principles to Classes 2 and 3 will in every case either (*a*) establish the right of the security to retain the class into which it was placed as the result of the preliminary examination, or (*b*) remove it to an inferior class. In this latter circumstance the new class-indication (if it be of

Class 5 or Class 6, and much more if it remove the security outside the range of possible classification altogether) may at once determine the investigator's judgment in a manner unfavourable to the subject of the scrutiny, since it will be clear that, unless (and these instances are rare) it can be raised in rank by some obscure extrinsic factor, it is self-displayed as involving a greater or less measure of obvious speculative risk. For instance, the preliminary examination of Honduras Government Bonds yields this result:

(Locus 3 + species 1) − 1 = 3.

If the stock be now tested for default, it will be found that no interest has been paid for nearly forty years. The result is to degrade the bonds to what we may be permitted to call Class 0, as possessing no rank whatever from the investment point of view. Again, Brazilian Federal Government Bonds exhibit the following class indications:—

(Locus 2 + species 1) − 1 .... =	2
Constructive default in 1898, under Rule 5 (*b*)	1
Class	3

But the bonds of the Brazilian State of Alagoas take a lower rank, under Rule 2, thus:—

(Locus 2 + species 2) − 1 .... =	3	
Constructive default of locus, under Rule 5 (*b*) .... =	1	2
Reduction of one rank under Rule 2 .... =	1	
Final class	5	

There remains only one rule which is capable of wide general application. Beyond that a system of classifications capable of being understood by an inexpert investigator cannot be carried. This rule can be enunciated thus:—

Rule 6.

The securities of private enterprises having a capital of not less than £50,000 are raised one degree in rank if:—

(a) They have paid a dividend of not less than 5 per cent. on their ordinary stock during the six years preceding the investigation; or

(b) They could (in the case of companies which have not been under joint-stock auspices for so long a period) have paid such dividend out of profits certified by their auditors year by year (and not "average") had they required to do so: provided that

(c) The rule does not apply if the dividends, though over 5 per cent., exhibit a smaller average over the last three years than over the first three.

If we test Harrod's Ordinary shares under this rule we commence by obtaining, as the result of the preliminary examination—

Class.

(Locus 1 + species 4) − 1 .... = 4

But the dividends are over 20 per cent., and increasing. Therefore the shares rise by one rank under the rule just enunciated, and fall finally into Class 3. The reason for the reservation under

section (*c*) of Rule 6 is fairly obvious. The fact that the dividend average is less in the latter period of three years than in the former suggests at once that the business is declining. The sources of its reduced prosperity may only be temporary, but they require at all events to be brought to the notice of the inquirer, in order to weigh with him in the formation of the final judgment upon the merits of the security which is under examination.

The Limit of the Rules.

Beyond the point at which we have now arrived it is not possible to go, at all events in the direction of enunciating rules which are capable of application by an inquirer of ordinary experience and intelligence. For instance, a most unfit extrinsic factor is that which may be described in the one word "management." But only a wide acquaintance with, and experience of, the personalities which dominate the business world can enable the inquirer to decide from a prospectus, or from reference-book particulars, what character for ability and energy the management, or the proposed management, of a given enterprise possesses. When the subject of investigation is the securities of a nation, province, city or public authority, the question of management in the ordinary sense of the word does not arise, or is, at all events, of quite minor importance. Where it does arise, the ordinary inquirer, however intelligent, cannot satisfactorily grapple with it. There are men whose reputation in the business world is such that a company formed, under their guidance, to

carry on gold mining in the Cannibal Islands would have its capital over-subscribed, and its shares at a premium, within an hour of the issue of the prospectus. There are other personalities whose record is so uniformly unfortunate that their mere name on a "front page" would warn from the enterprise every investor who had sufficient experience to appreciate its significance. But the capacity to distinguish one name from another, to judge a "front page" at a glance, is only given as the guerdon of years of experience and observation. No list of names could ever serve the purpose, even if it were within the possibility of compilation. No rules, however minute and comprehensive, can in this respect be framed even for the most laborious of students.

The Impalpable Influences.

Nor, again, can aught but long experience enable the inquirer to detect and to appreciate the myriad changing influences which are for ever modifying the conditions and the prospects of all investments which depend upon successful trading for their return. The advent of keen competition may alter the whole aspect of a company which has for years enjoyed a practical monopoly in some sphere of industrial activity, with a corresponding abundance of profits and amplitude of dividends. That which seemed the weaker of two trading competitors may suddenly become the stronger. The selection of a particular industry to bear the brunt of heavier taxation may in a few years bring a whole class of excellent investments from the heights almost to the depths—as the

fairly recent fall in brewery securities has amply demonstrated. The advent of the motor car did much to weaken the position, and consequently to reduce the dividends and dim the prospects, of the numerous cycle companies which came into existence in the closing decade of the last century. No prolonged financial experience is necessary in order to understand why even gilt-edged stocks may be undesirable purchases when a long continuance of cheap money has driven them to "fancy" prices; but a cool nerve and a trained judgment must be possessed by the investor whose ambitions lie along the path marked out by the late Jay Gould when he said that the sound policy in finance is to buy when everybody else is selling. In all problems of investment selection into which questions of this kind enter, the advice and aid of a skilled and experienced critic must be sought. But to a very great extent, and with regard to an extremely large proportion of the securities known to the British markets, the rules given in the present chapter will be an adequate and satisfactory guide. And even where they are studied with no intention to apply them in actual practice, it is believed that they will indicate the sound mode of financial judgment, and train the mind of the observer, by its exercise, to confront the great economic problems which lie along the path of finance.

CHAPTER VI.

CONCLUSION AND SUGGESTION.

At the close of an endeavour to analyse such a seething microcosm of finance as the activities of the City of London incessantly present, it seems desirable, not to say essential, that we complete the survey by considering the subject-matter from a somewhat different point of view. Till now we have not travelled far from contemporary aspects and current modes of action. But it is certain that so potent a mechanism cannot develop into activity, or discharge its multitudinous functions, without in the first place complying with the necessities of its environment by a constant struggle towards a better adaptation, and, in the second, without setting in motion numerous influences and tendencies of simultaneous activity with itself. To appreciate intelligently the significance and the interpendence of all the economic forces which find their driving power centred in the City of London is to possess a liberal education in economics. To endeavour to estimate the direction and the potency of the contemporary influences and tendencies which the mechanism institutes and maintains in activity is a task of infinitely greater magnitude, which there is the less encouragement to attempt, because the capacity to foresee the course of social and political

development for a greater distance than a few months ahead is only given to the most piercing human vision.

There is no necessary connection between investment and party politics. I say "party" politics because the investor is, to a greater degree, perhaps, than any other member of society, interested in the establishment and maintenance of the social conditions which make for stability and peace. He is among the first to pay the penalty for the disturbance of either. But since neither of the two great political parties has ever declared war on the social order, the investor (as such) has, up to a recent date, remained outside the range of party politics. Within the last few years, however, the City has become an impregnable citadel of the Unionist party, and the activity of the advocates of Socialism has tended to drive the investing classes more and more into the support of the Unionist party. The tendency has been neutralised in the north (and especially in Lancashire and Yorkshire) by the failure of the Tariff Reform propaganda to commend itself to the great textile interests. On the other hand, the rapid development by the Liberal and Labour alliance of a policy of high taxation, calculated to fall mainly upon the investing and trading classes, has undoubtedly acted as a fresh stimulus to the movement of the investor towards Unionism; and if the Tariff Reform difficulty were obviated there can be no doubt that even in constituencies which at present place Free Trade above and beyond every other consideration the movement towards Unionism would be accelerated, except, of course, in instances where the Labour, as distinguished

from the Liberal, party completely dominates the position.*

Unless the co-operative moment (and perhaps the great trade unions themselves) are regarded as results of the democratisation of investment, it may be said that the sentiment of the Labour party, as a whole, is opposed to the principle of investment altogether. The experiment recently made by Sir Christopher Furness, in the direction of enabling his workmen to acquire a share interest in the companies for which they work, has met with the almost universal opposition of the Labour leaders. Their attitude has been attributed to various causes, all of which are in reality subordinate to their strong belief that the creation of such a community of interest between employer and employed as would be represented by the worker sharing in the profits of the business is a menace to the independence of labour and should be resisted. But it will be well for the observer of social and financial tendencies to consider

* It should be borne in mind that the present chapter consists only of outline suggestions for the consideration of the influence and tendencies of the vast mechanism which is occupied with the investment department of finance. It is as impossible to ignore the political element as it is to discuss it without approaching the controversial arena. If objection be taken, on this pretext, to any of the suggestions, I desire to admit at once that we have left the safe and unassailable ground of economic principle, and are in a region where different observers, of equal capacity and good faith, may hold opinions that are diametrically opposed. The text, so far as it involves the expression of opinions, contains mine ; and all that I claim for them is that they have their genesis in good faith and a long experience. Their value, as the suggestion of possible lines of political and social development, the reader is invited to estimate for himself.

whether this opposition is likely to hold its ground against the steady improvement in the resources of the immense class which lives by skilled labour, and makes up such trade unions as those of the engineers and the compositors. In other words, does the permeation of the practice of investment, downwards through the social strata, tend to create an automatic antidote to the more aggressive forms of Socialism? Does this incalculable multiplication of private interests create new obstacles to, or new facilities for, the attainment of the public ownership of the means of production, distribution, and exchange?

That is, again, a question which must be answered in different ways by different observers of the phenomena. The economists of Adam Smith's day might have scouted the mere possibility of the manageable existence of such vast aggregates of credit and responsibility as are represented by our largest modern joint-stock banks. The London and North Western Railway is a much greater achievement in organisation than, for instance, was England under Cromwell, in the comparative calm which succeeded the tragedy of 1649. If these triumphs are within the range of private enterprise, it has been argued that only one step, and that a short one, is required to transport us from present conditions to the realisation of the Socialist ideal. But on the other hand there is the immense power wielded by these vast aggregates, which may be invoked to resist any movement for their absorption by the State. The discussion of railway nationalisation has had its origin largely in the belief among railway employees that their position would be much better

under State than under private ownership. But even amongst the most sympathetic critics of the labour movement there has been generated the opinion that the State could not simultaneously own vast public services and at the same time allow its servants to exercise electoral pressure upon it with a view to securing a constantly augmented share of the products of these public properties. That policy must almost inevitably lead to a combination of nominal State ownership with actual private control and benefit. The worker would be almost irresistibly tempted to employ his vote in bringing about such a state of things as would secure for him and his fellows the entire available revenue of the undertaking. If that be recognised, even among the friendly critics of democracy, as a peril against which the nation must take precautions, a good deal of the glamour of railway nationalisation is destroyed; and if at the same time the constant extension of invested interests leads to the creation of a large and powerful body of electoral opinion opposed to railway nationalisation, we can see how the propaganda in its favour must be affected. Similar proposals with regard to other great branches of national activity and enterprise must probably be affected in the same way; and the observer of the gigantic process must inevitably be forced to ask himself whether he has not here an automatic check upon the movement towards collectivism, at all events so far as that movement may tend to adopt a far-reaching programme to the accompaniment of socially revolutionary modes of action.

The expression "revolutionary" is employed with

no sense of reproach. Revolution is often only evolution with its pace accelerated. The enormous increase of investment interest and practice is in itself a revolution, and the intelligent observer who has followed the analysis of the City mechanism up to the close of Chapter V. cannot possibly have missed the social significance of the education in economics which is simultaneously and necessarily going on over the whole area occupied by the investing public. The operation of the Joint Stock Companies Acts and the concurrent developments have in truth not only given us the forum, but have filled it with a skilled and critical audience, able to appreciate the meaning and the working of economic principle. The City of London, which in the mediæval period lifted the whole nation to a higher plane of political aspiration, has in our day been the main instrument in endowing it with an economic consciousness by which it is enabled to recognise its social power, individuality, and destiny, and to employ the first for the realisation of the other two. The intelligent reader of the present essay will not vainly ask himself how, or why.

The "Root of the Matter."

I am not suggesting for a moment that the judgment of the City is invariably correct, and that prejudice and ignorance do not exist among the immense investing class, just as they flourish in other sections of the community. But, none the less, it may be confidently postulated of the City, and of the investing public as a class, that it is characterised by a

breadth of vision, a freedom from conventional ideas, together with a more than ordinarily extensive endowment of that sense which is called common, though, as a matter of fact, it is rare if we consider it as a faculty of mankind at large. It would be easy to specify instances, but for the present purpose it may be adequate to indicate the fact. A recognition of the power of idealism as an inspirational force is quite consistent with a belief that mankind may still be thankful for, and benefited by, the product of such economic laboratories as that which the investment mechanism of the world, and especially the City of London, provides.

The truth is that economics is the science of man's dwelling-place, but that its scope is ever widening as the domestic conception develops. From the single house to the mediæval borough; from the isolated turbulent Saxon communities to the Imperial unity animated by the Imperial spirit; from utter individual selfishness to the majestic social ideals, the realisation of the essential oneness of mankind, which now inspire the great leaders of the race—from one point to the other, and from the latter into the dim and illimitable future, the improvement of his dwelling-place has been, and will be, the dominant preoccupation of mankind. The fact is not the less true because, in our own day, some of the foremost of modern scientists have set themselves to demonstrate man's survival of mortality, and the consequent necessity that he view his dwelling-place here as the ante-chamber to another home, where he may live with ampler scope and wider opportunity hereafter.

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